

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-83386; File No. SR-ICC-2018-004)

June 6, 2018

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change Relating to Formalization of the ICC Model Validation Framework

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on May 23, 2018, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by ICC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The principal purpose of the proposed rule change is to formalize the ICC Model Validation Framework. This change does not require any revisions to the ICC Clearing Rules.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, ICC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. ICC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Summary of Proposed Changes

ICC proposes to formalize the ICC Model Validation Framework, which sets forth ICC's model validation procedures. ICC has developed a proprietary risk management system that models the risk of credit default swap based portfolios and determines appropriate Initial Margin and Guaranty Fund requirements. The risk management system is composed of risk modeling components ("Model Components") which employ a combination of statistical analysis of credit spread time series and stress test simulation scenarios to address different risk drivers. The risk drivers addressed by the Model Components constitute the foundation of total Initial Margin and Guaranty Fund requirements for cleared portfolios. The ICC Model Validation Framework provides assurances as to the appropriateness of its risk requirements. ICC's Risk Oversight Officer is the ICC Model Validation Framework owner and is responsible to the ICC President for the successful operation and maintenance of the ICC Model Validation Framework.

ICC considers both new Model Components and enhancements to Model Components as part of its Model Validation Framework (collectively, "Model Change"). New Model Components consider risk drivers that are not currently included in the risk management system; enhanced Model Components improve upon the methodologies used by the risk management system to consider a given risk driver or drivers. ICC classifies Model Changes as either Materiality A or Materiality B, depending on how substantially the Model Change affects the risk management system's assessment of risk for the related risk driver or drivers. The ICC Chief Risk Officer and the ICC Risk

Oversight Officer will review all enhancements to ICC's risk management system and decide which enhancements qualify as Model Changes, and which qualifying enhancements should be classified as Materiality A versus Materiality B. Materiality A Model Changes receive a higher control standard than Materiality B Model Changes. The ICC Risk Committee reviews the materiality classifications and provides feedback as necessary.

The ICC Model Validation Framework sets forth the process for selecting Model Validators and describes the independent validator criteria, including technical expertise and independence requirements. The ICC Model Validation Framework also describes the Model Inventory which is maintained by the ICC Risk Department and which contains key information about all ICC Model Components and Model Changes. The ICC Risk Oversight Officer will review the model inventory at least quarterly to ensure that it contains accurate and up to date information relating to ICC's Model Components and Model Changes.

The ICC Model Validation Framework consists of four controls: initial validation; ongoing monitoring and validation; investigation; and independent periodic review. Before going live with a Model Change, ICC must successfully complete an initial validation of the conceptual soundness of the methodology and the proposed ongoing monitoring and validation approach. All Model Changes are subject to internal initial validation. In addition, Materiality A Model Changes are subject to an additional independent initial validation.

Ongoing monitoring and validation provides assurances that ICC has appropriately configured and calibrated the risk management system, including any

recent Model Change, and that the risk management system is achieving the desired level of performance. The ongoing monitoring and validation control consists of three areas: parameter setting, execution monitoring, and outcome analysis.

If ongoing monitoring and validation identifies features of the risk management system that might indicate a Model Component weakness, ICC investigates and identifies the root cause. If a model weakness is discovered during investigation, the ICC Chief Risk Officer informs the ICC Risk Committee of the ongoing monitoring and validation results which triggered the investigation. If ICC is satisfied that the identified features do not represent a model weakness, the ICC Chief Risk Officer will present the results of the investigation demonstrating no model weakness exists. If ICC identifies a model weakness during the investigation, the ICC Chief Risk Officer will present the results of the investigation demonstrating a model weakness, and ICC will remediate the identified weakness through an appropriate Model Change, which passes through the ICC Model Validation Framework starting with an Initial validation.

The ICC Chief Risk Officer provides support and information to allow the independent validators to perform periodic reviews of all ICC Model Components and related practices at least once in every calendar year. At ICC's choosing, the scope of an independent periodic review may cover all Model Components used by the risk management system, or a subset of Model Components, as long as all Model Components are included in one or more independent periodic reviews each year. The independent periodic review will demonstrate that the Model Components remain fit for purpose; that the Model Components assumptions are valid; that ICC has adequately addressed any medium priority open items from Model Change initial validations and any

other implementation conditions; and that ICC has been complying with its ongoing monitoring and validation requirements and the Model Components are performing without any significant weakness. The deliverables from the independent periodic review must include a report from the independent validator providing a summary of the completed evaluation and details of any remaining open items, classified by priority. The ICC Chief Risk Officer will present the periodic review to the ICC Risk Committee and describe ICC's plans in relation to any open high or medium priority items in the report.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Act³ requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to the extent applicable, derivative agreements, contracts and transactions and to comply with the provisions of the Act and the rules and regulations thereunder. ICC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to ICC, in particular, to Section 17A(b)(3)(F)⁴, because ICC believes that the proposed rule change will promote the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions. The ICC Model Validation Framework provides assurances as to the appropriateness of changes to ICC's risk models, including the appropriateness of risk requirements. As such, the proposed rule change is designed to promote the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions within the

³ 15 U.S.C. 78q-1(b)(3)(F).

⁴ Id.

meaning of Section 17A(b)(3)(F)⁵ of the Act. The proposed rule change will also satisfy the requirements of Rule 17Ad-22.⁶ In particular, the proposed rule change sets forth ICC's model validation procedures, including the evaluation of the performance of ICC's risk models and related parameters and assumptions by a qualified and independent Model Validator, consistent with the requirements of Rule 17Ad-22(b)(4).⁷

(B) Clearing Agency's Statement on Burden on Competition

ICC does not believe the proposed rule change would have any impact, or impose any burden, on competition. The ICC Model Validation Framework applies uniformly across all market participants. Therefore, ICC does not believe the proposed rule change impose any burden on competition that is inappropriate in furtherance of the purposes of the Act.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments relating to the proposed rule change have not been solicited or received. ICC will notify the Commission of any written comments received by ICC.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

⁵ 15 U.S.C. 78q-1(b)(3)(F).

⁶ 17 CFR 240.17Ad-22.

⁷ 17 CFR 240.17Ad-22(b)(4).

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ICC-2018-004 on the subject line.

Paper Comments:

Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ICC-2018-004. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld

from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings will also be available for inspection and copying at the principal office of ICE Clear Credit and on ICE Clear Credit's website at <https://www.theice.com/clear-credit/regulation>. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ICC-2018-004 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁸

Eduardo A. Aleman
Assistant Secretary

⁸ 17 CFR 200.30-3(a)(12).