

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-95002; File No. SR-ICC-2022-006)

May 27, 2022

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 17, 2022, ICE Clear Credit LLC (“ICC”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared primarily 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 revise the ICC Model Validation Framework (the “Model Validation Framework” or “Framework”). These revisions do not require any changes to the ICC Clearing Rules (the “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, security-based swap submission, or advance notice and discussed any comments it received on the proposed rule change, security-based swap submission, or advance notice. The text of these statements may be

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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.

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

(a) Purpose

ICC proposes revisions to the Model Validation Framework, which provides assurances that ICC models are performing as expected. The proposed amendments include clarifications on the scope and applicability of the Framework, responsibilities of relevant stakeholders, and other validation elements. Additional proposed changes reorganize certain portions of the Framework and make language clarifications to promote readability. ICC believes the proposed changes will facilitate the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions for which it is responsible. ICC proposes to make such changes following Commission approval of the proposed rule change. The proposed rule change is described in detail as follows.

ICC proposes amendments to Section 1 containing the introduction. To introduce the purpose of the Framework more clearly, ICC proposes to begin the document with an overview in Subsection 1.1. The revision history of the Framework would be moved to the end of the document. Proposed new language in Subsection 1.1 describes ICC's clearing approach that utilizes various models as part of its risk processes. For clarity, the definition of a model and the purpose of validation is included. Relevant language from current Subsection 1.1 is accordingly moved to Subsection 1.2 and certain other language is removed as described below.

Amended Subsection 1.2 applies the Framework to clearing house models, rather than risk management system models. ICC proposes these revisions to expand the scope of the Framework. The current language directly applies the Framework to ICC’s risk management system models (i.e., those relating to financial resources and liquidity resources). The proposed revisions clarify that the Framework applies to all ICC models, which would include an additional model relating to counterparty credit. Accordingly, the changes frame the components that make up a model (“model components”) in terms of ICC’s models rather than its risk management system. Information in current Subsection 1.1 regarding risk drivers would be removed to avoid confusion as it is specific to risk management system models and not relevant elsewhere in the document. Detailed information regarding risk drivers and ICC’s risk management system is more appropriate in ICC’s risk policies. ICC would continue to distinguish between new, enhanced, and retired model components (collectively, “model change”). References to the risk management system are replaced with references to models in Section 1 and throughout the document. ICC’s Model Inventory, which lists ICC models, is introduced in this subsection instead of later in the document. Additional procedures are incorporated for consulting with the Risk Committee regarding adding, enhancing, or retiring models or model components.

Amended Subsection 1.3 includes language from current Subsection 2.2 pertaining to materiality classifications of model changes. The language remains mostly the same with a small update to spell out an abbreviated term. Such language is more fitting in the introductory section, as it provides the foundation of how ICC views model changes in terms of materiality.

New Subsection 1.4 contains language from current Subsection 1.2 with certain clarifications. Specifically, Subsection 1.4 applies the development process set out in the document to new model and model change development rather than just model change development. This is intended to be a clarification and would not change how ICC develops new models. The development process continues to include design, implementation, user-acceptance testing, and deployment phases.

ICC also proposes revisions to Section 2 containing information on Framework oversight. The Risk Oversight Officer (“ROO”) continues to be responsible for the operation and maintenance of the Framework under Subsection 2.1. Since language from Subsection 2.2 is moved, the following subsections are renumbered accordingly. Amended Subsection 2.2 details how a team of independent validators meets the criteria for independence and technical expertise. Minor changes pertaining to the ROO’s responsibilities are also included. In Subsection 2.3, a redundant statement is removed and minor language clarifications are made. In Subsection 2.4, ICC would specify that the Model Inventory holds key information about all ICC models, model components, and model changes. The Model Inventory is maintained by the ROO, who would review it with the ICC Risk Department.

ICC further proposes amending Section 3 describing the Framework controls. Subsection 3.1 takes language (including Figure 1) from current Subsection 1.3, which provides an overview of the Framework controls. This information is more appropriate in Section 3, which covers Framework controls. The following subsections are renumbered accordingly and continue to describe the same four controls.

Revisions regarding initial validations are made in Subsection 3.2. Subsection 3.2.2 specifies that an independent initial validation is required for all new models. Updates to part (a) and throughout the subsection clarify that the validation may consider new models or model change. Proposed language in part (b) describes the validation report deliverable in more detail, noting certain information the report should include. This is not a new requirement and is intended to reflect and memorialize current and good practices to ensure reports are effective. Amended part (c) includes minor changes regarding the presentation of the report to the Risk Committee, including the role of the ROO and the presentation scope, which are not new requirements and are intended to reflect current practices.

Minor updates are included in Subsection 3.3. ICC proposes to more generally refer to certain policies in Subsection 3.3.1 and to remove references to specific policies in Subsection 3.3.3. ICC considers such references unnecessary, as the Framework is not intended to introduce other policies. ICC also proposes a clarification in Subsection 3.3.3 that it performs several types of outcome analyses comparing model results to corresponding actual or hypothetical outcomes (e.g., stress testing and back testing).

ICC proposes amending Subsection 3.5 related to independent periodic reviews. ICC proposes to begin by referencing applicable regulations on its requirement to perform independent periodic reviews. Information on the Chief Risk Officer's responsibilities is moved to the end. ICC continues to ensure that not more than twelve months passes between each independent periodic review. Additional references to the twelve-month period are referred to generally as the review cycle. For models that are not subject to the annual requirement, proposed language directs the ROO, in consultation

with the Risk Committee, to set an established periodicity for independent periodic review. Currently, the ROO as the individual responsible for the operation and maintenance of the Framework determines the appropriate periodicity of review for models, in consultation with the Risk Committee. Such language is intended to memorialize current practices and formalize the requirement in the Framework. In Subsection 3.5.1, ICC proposes updates to an independent periodic review component, including when it is not applicable, to ensure that ICC adequately addresses any open items. In Subsection 3.5.2, ICC proposes to describe the independent periodic review report deliverable in more detail, noting certain information the report should include, to reflect and memorialize current and good practices to ensure reports are effective. ICC also proposes minor changes regarding the presentation of the report to the Risk Committee, including the role of the ROO and the presentation scope, which are not new requirements and are intended to reflect current practices. Additional information regarding remediation of items in the reports is proposed, including required consultations with the Risk Committee on remedial actions and timelines. Such updates ensure that ICC remediates high priority items as soon as possible and considers any applicable governance or regulatory actions or technology implementations in timelines for remedial actions. Currently, ICC consults with the Risk Committee on remedial action timelines and closure of items. The proposed language is intended to memorialize current practices and formalize the requirement in the Framework. New Subsection 3.5.3 proposes procedures for ad hoc reviews of methodologies that are not considered models under the Framework. Finally, ICC proposes an appendix that clearly sets out the current ICC models.

(b) Statutory Basis

ICC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>3</sup> and the regulations thereunder applicable to it, including the applicable standards under Rule 17Ad-22.<sup>4</sup> In particular, Section 17A(b)(3)(F) of the Act<sup>5</sup> requires that the rule change be consistent with the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts and transactions cleared by ICC, the safeguarding of securities and funds in the custody or control of ICC or for which it is responsible, and the protection of investors and the public interest.

The proposed rule change is generally designed to enhance, clarify, and more clearly document ICC's model validation processes and procedures. The changes clarify that the Framework applies to all ICC models, which would expand the scope of the Framework. Additional stakeholder responsibilities are included pertaining to the ROO, Risk Department, and Risk Committee. Further information regarding validation elements is proposed, such as applicable regulations, remedial actions and timelines, and procedures for ad hoc reviews of methodologies. Proposed language specifies that ICC remediate high priority items as soon as possible and consider applicable governance or regulatory actions or technology implementations in remedial action timelines. These amendments would strengthen the Framework to ensure that it appropriately provide assurances that all ICC models are performing as expected and that ICC remediates

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<sup>3</sup> 15 U.S.C. 78q-1.

<sup>4</sup> 17 CFR 240.17Ad-22.

<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

report items in an appropriate and timely manner. The proposed revisions also provide clarity, reflect current practices, and formalize certain requirements in the documentation to ensure that the Framework remains up-to-date, transparent, and effective. Furthermore, other proposed changes promote readability and understanding, including beginning the document with an overview, reorganizing text to follow section headings more closely, and making minor language clarifications, and will promote the successful maintenance and operation of the Framework. ICC believes that the proposed rule change would facilitate and enhance its ability to carry out its model validation procedures and fulfill its model validation requirements in respect of the models utilized as part of ICC's risk processes and thus promote overall risk management and stability of ICC. Accordingly, in ICC's view, the proposed rule change is consistent with the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions, the safeguarding of securities and funds in the custody or control of ICC or for which it is responsible, and the protection of investors and the public interest, within the meaning of Section 17A(b)(3)(F) of the Act.<sup>6</sup>

The amendments would also satisfy relevant requirements of Rule 17Ad-22.<sup>7</sup> Rule 17Ad-22(b)(4)<sup>8</sup> requires ICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to provide for an annual model validation consisting of evaluating the performance of its margin models and the related parameters

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<sup>6</sup> Id.

<sup>7</sup> 17 CFR 240.17Ad-22.

<sup>8</sup> 17 CFR 240.17Ad-22(b)(4).



and assumptions associated with such models by a qualified person who is free from influence from the persons responsible for the development or operation of the models being validated. Rule 17Ad-22(e)(4)(vii)<sup>9</sup> requires ICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by performing a model validation for its credit risk models not less than annually or more frequently as may be contemplated by its risk management framework. Rule 17Ad-22(e)(6)(vii)<sup>10</sup> requires ICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, among other things, requires a model validation for its margin system and related models to be performed not less than annually, or more frequently as may be contemplated by its risk management framework. Rule 17Ad-22(e)(7)(vii)<sup>11</sup> requires ICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by ICC, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by, among other things, performing a model validation of its liquidity risk models not less than annually or more frequently as may be contemplated by its risk management framework. As

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<sup>9</sup> 17 CFR 240.17Ad-22(e)(4)(vii).

<sup>10</sup> 17 CFR 240.17Ad-22(e)(6)(vii).

<sup>11</sup> 17 CFR 240.17Ad-22(e)(7)(vii).

described above, the amendments clarify that the Framework applies to all ICC models, including an appendix to clearly set out current models. The amendments propose updates and specificity regarding the report deliverable and presentation as well as how a team of validators meets independence and technical expertise requirements. The amendments incorporate applicable regulatory requirements and procedures related to annual validation cycles and periodic reviews. ICC believes that such changes continue to ensure that ICC receives independent and effective model validations and that ICC continues to perform model validations in accordance with applicable regulations. Therefore, ICC believes the proposed rule change is consistent with the requirements of Rule 17ad-22(b)(4), (e)(4)(vii), (e)(6)(vii) and (e)(7)(vii).<sup>12</sup>

Rule 17Ad-22(e)(2)(i) and (v)<sup>13</sup> requires ICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to provide for governance arrangements that are clear and transparent and specify clear and direct lines of responsibility. The Framework continues to describe the personnel responsible for, and the governance procedures associated with, the successful operation and maintenance of the Framework. Additional responsibilities of relevant stakeholders are included in the Framework. For instance, updates and procedures are incorporated for presenting reports to the Risk Committee and consulting with the Risk Committee to add, enhance, or retire models or model components and regarding remedial actions and timelines. The amendments more clearly set out the role of the ROO in the operation and maintenance

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<sup>12</sup> 17 CFR 240.17Ad-22(b)(4), (e)(4)(vii), (e)(6)(vii) and (e)(7)(vii).

<sup>13</sup> 17 CFR 240.17Ad-22(e)(2)(i) and (v).

of the Framework and the role of the Risk Department in reviewing the Model Inventory. Moreover, for models that are not subject to the annual requirement, proposed language directs the ROO, in consultation with the Risk Committee, to set an established periodicity for review. Memorializing additional detail and responsibilities, including to reflect current practices, would strengthen the Framework to ensure that responsible parties effectively carry out ICC's model validation procedures. As such, ICC believes that the proposed rule change ensures that ICC maintains policies and procedures that are reasonably designed to provide for clear and transparent governance arrangements and specify clear and direct lines of responsibility, consistent with Rule 17Ad-22(e)(2)(i) and (v).<sup>14</sup>

Rule 17Ad-22(e)(4)(ii)<sup>15</sup> requires ICC to establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining additional financial resources at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the two participant families that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions. The Framework supports ICC's ability to maintain sufficient risk requirements and enhances ICC's approach to identifying potential weaknesses in the risk management system through the use of

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<sup>14</sup> Id.

<sup>15</sup> 17 CFR 240.17Ad-22(e)(4)(ii).

independent validations and periodic reviews. The amended Framework continues to provide a process for reviewing and enhancing the models that ICC utilizes as part of its risk processes. The changes strengthen the Framework and ensure completeness by expanding the scope to clearing house models, including procedures regarding ad hoc reviews of methodologies to ensure objective and effective review, and including procedures regarding remedial actions and timelines to ensure remediation of report items in an appropriate and timely manner. Additional changes ensure the Framework remains up-to-date, transparent, and focused on clearly articulating the policies and procedures used to support ICC's model validation efforts, including by reorganizing text, removing unnecessary references to policies, and specifying when an independent periodic review component is not applicable. In ICC's view, the proposed rule change would facilitate and enhance its ability to carry out its validation processes and procedures in respect of the models utilized as part of ICC's risk processes or other methodologies. As such, the proposed amendments would strengthen ICC's ability to maintain its financial resources and withstand the pressures of defaults, consistent with the requirements of Rule 17Ad-22(e)(4)(ii).<sup>16</sup>

(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 proposed changes to the Framework will apply uniformly across all market participants. They are generally designed to enhance, clarify, and more clearly document ICC's model validation processes and procedures and include

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<sup>16</sup> Id.

clarifications on the scope and applicability of the Framework, responsibilities of relevant stakeholders, and other validation elements. ICC does not believe these amendments would affect the costs of clearing or the ability of market participants to access clearing. Therefore, ICC does not believe the proposed rule change would 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:

- (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](mailto:rule-comments@sec.gov). Please include File Number SR-ICC-2022-006 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-ICC-2022-006. 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, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. 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-2022-006 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.<sup>17</sup>

J. Matthew DeLesDernier,  
Assistant Secretary.

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<sup>17</sup> 17 CFR 200.30-3(a)(12).