



February 19, 2019

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Self-Certification Pursuant to Commission Rule 40.6 – Model Risk
Governance Framework

Dear Mr. Kirkpatrick:

ICE Clear Europe Limited (“ICE Clear Europe” or the “Clearing House”), a registered derivatives clearing organization under the Commodity Exchange Act, as amended (the “Act”), hereby submits to the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Rule 40.6 for self-certification, the rule change discussed herein. The amendments are to become effective on the first business day following the tenth business day after submission, or such later date as ICE Clear Europe may determine.

Concise Explanation and Analysis

ICE Clear Europe is adopting a new Model Risk Governance Framework (the “MRGF”)¹, which is intended to establish overall standards and principles for managing and mitigating model risk, for all product categories. Specifically, it is designed to ensure that (1) the roles and responsibilities for model oversight are clearly defined, (2) an appropriate organizational structure is in place to address new models, model changes, review of existing models and model retirement, and (3) appropriate guidelines and schedules exist for model inventory, model validation and remediation of concerns with models. The MRGF applies throughout the life cycle of models used by the Clearing House.

The MRGF defines a “model” for this purpose as a quantitative method, system or approach that applies statistical, economic, financial or mathematical theories,

¹ Capitalized terms used but not defined herein have the meanings specified in the ICE Clear Europe Rules.

techniques and assumptions to process input data into quantitative estimates. The framework also defines “model risk” as the risk that a model does not perform as it was designed, either due to error or failure in the model specification or inappropriate use.

The MRGF addresses the materiality of models, based on the potential impact the related model risk may have on ICE Clear Europe and its clearing members. A model will be deemed material where the output of the model is the primary factor affecting risk management decisions relating to counterparty and liquidity risk. With respect to model changes, the framework also assesses the significance of the change, in accordance with applicable law and regulatory guidelines.

The MRGF establishes the role of governance bodies in model review and approval, including the Model Oversight Committee (“MOC”) and Board. The MOC is responsible for model risk governance at an executive level, and advises the Board on material model risk. The MOC is responsible for approving new models, model changes and retirement of models, approving the periodic validation cycle, or validation pipeline, approving remediation actions, reviewing model performance assessments and approving external validators. The Board has ultimate responsibility for model risk governance, approving material new models and significant model changes for material models, reviewing the actions of the MOC, reviewing performance of material models outside of acceptable levels for model risk, in light of risk appetite metrics, and reviewing impact assessments for the retirement of material models.

The MRGF uses the Clearing House’s tiered approach to model governance. This approach entails: (i) a first line, such as the clearing risk department, that is responsible for owning the model, ensuring that models are properly developed, implemented and used, establishing a model inventory, proposing new models, model changes and model retirements and related materiality and significance levels, conducting performance and impact assessments, and proposing and implementing remediation actions as needed; (ii) a second line, represented by the risk oversight department (“ROD”), that is responsible for performing or overseeing independent validation, reviewing performance assessments, establishing risk appetite metrics for model performance, establishing guidelines for validations and external validators (including criteria for expertise and independence), and reporting results of validations and assessments to appropriate committees; and (iii) a third line, represented by the Internal Audit Department, that is responsible for assessing the overall effectiveness of the MRGF and related governance policies and assessing independent validation work.

The MRGF sets out a general oversight process for models throughout their life cycle, including development of new models, model changes, review of existing models and model retirements. New models will be subject to validation before being approved and introduced into use. For model changes, significant changes will be validated before being approved (using the same criteria as for new models). Model changes that are not significant will be validated in accordance with the periodic re-validation pipeline. The MRGF provides for model re-validation and performance assessments, to determine whether a model continues to be fit for its

designed purposes. The ROD will establish a validation pipeline, or periodic re-validation cycle. The frequency of re-validation will be in accordance with regulatory requirements, which may be annually where required or more frequently as needed. Similarly, performance assessments will also be conducted on a periodic basis at least annually, in accordance with applicable regulatory requirements.

The MRGF also addresses model retirements and deactivations (retirement permanently discontinues a model while deactivation is a temporary discontinuation). Prior to retiring or deactivating a model, the Clearing House will conduct an impact assessment of the risks and consequences.

In terms of validation, the ROD is responsible for conducting the independent validation (if done internally) at the appropriate frequency and coordinating external validation when appropriate. ICE Clear Europe has adopted a set of independent validator selection guidelines addressing external validation. Under the guidelines, the Clearing House may engage an external independent model validator when there are insufficient internal resources to meet both the technical expertise and independence requirements for the model undergoing independent validation, internal resources do not have the operational capacity to perform the validation within an appropriate timeframe or otherwise at the discretion of the ROD. The use of external independent model validators is subject to review and approval by the MOC.

Compliance with the Act and CFTC Regulations

The amendments are potentially relevant to the following core principle: (D) Risk Management and the applicable regulations of the Commission thereunder.

- *Risk Management.* The amendments are intended to set an overall framework for, and generally facilitate, the ongoing development, review and validation of all models used by the Clearing House (and changes thereto) throughout their life cycle. The MRGF ensures that models, including those used in the margin framework, will be subject to independent validation and regular review. It will also assist the Clearing House in managing the risks from its use of models. In ICE Clear Europe's view, the amendments will enhance the overall risk management framework of the Clearing House, and are therefore consistent with the requirements of Core Principle D and Commission Rule 39.13.

As set forth herein, the amendments consist of the new MRGF. ICE Clear Europe has requested confidential treatment with respect to the MRGF, which has been submitted currently with this self-certification submission.

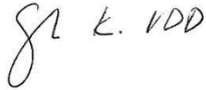
ICE Clear Europe hereby certifies that the amendments comply with the Act and the Commission's regulations thereunder.

ICE Clear Europe has received no substantive opposing views in relation to the proposed rule amendments.

ICE Clear Europe has posted a notice of pending certification and a copy of this submission on its website concurrent with the filing of this submission.

If you or your staff should have any questions or comments or require further information regarding this submission, please do not hesitate to contact the undersigned at carolyn.vandendaelen@theice.com or +44 20 7429 4515.

Very truly yours,

A handwritten signature in black ink, appearing to read 'C. E. VDD', written in a cursive style.

Carolyn Van den Daelen
Head of Regulation & Compliance