



May 18, 2018

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 – CDS Stress Testing
Policy Amendments

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 amendments to its CDS Clearing Stress Testing Policy (the “Stress Testing Policy”) 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 modifying certain provisions of its Stress Testing Policy, among other matters, to recategorize certain CDS stress testing scenarios, address specific wrong way risk, introduce new forward looking credit event scenarios and make certain other enhancements and clarifications. These revisions do not involve any changes to the ICE Clear Europe Clearing Rules or Procedures.¹

ICE Clear Europe currently maintains a broad array of stress testing scenarios that are applied to portfolios of positions as part of its risk management practices for the CDS product category. As part of the existing policy, the Clearing House management regularly evaluates whether to retire certain scenarios or portfolios as outdated or otherwise inapplicable, and whether to add new scenarios or portfolios for testing

¹ Capitalized terms used but not defined herein have the meanings specified in the ICE Clear Europe Clearing Rules (the “Rules”).

purposes. ICE Clear Europe is not changing the frequency of stress testing or of its regular reviews of stress testing scenarios, models and underlying parameters and assumptions.

The amendments generally reorganize the existing stress testing scenarios into two broad categories: extreme but plausible market scenarios and extreme market scenarios. Extreme but plausible scenarios include both historical scenarios (such as those involving the 2008/2009 credit crisis, the Lehman Brothers default and discordant scenarios, where there are discordant moves among major indices) and hypothetical scenarios (such as hypothetical inversion or steepening of credit spread curves, and scenarios that are the opposite of certain of the historical scenarios). The amendments also add a new category of forward looking credit event scenarios, which are based on historically observed extreme but plausible market scenarios augmented with the occurrence of specified adverse credit events involving both clearing member reference entities and non-clearing member reference entities.

The treatment of extreme market scenarios, which generally apply certain of the base “extreme but plausible” scenarios but with higher magnitudes of spread widening or tightening, would be clarified to state in greater detail the approach used for scaling up such factors. In particular, the approach reflects the CDS market structure and the resulting asymmetric effects of spread widening versus tightening. The amendments also remove certain specific scenario tables from the policy as unnecessary given that they are reflected in the revised general description.

The Stress Testing Policy has also been amended to expressly address specific wrong-way risk in the calculation of hypothetical losses as part of stress testing. If a portfolio being stress tested presents specific wrong way risk (i.e., the risk arising where a clearing member has provided credit protection on itself or an affiliate), the calculation takes into account the full uncollateralized loss given default (in other words, it is assumed that the clearing member whose portfolio is being analyzed will default).

The provisions of the Stress Testing Policy relating to the analysis of CDS guaranty fund adequacy are being revised to clarify that stress testing is conducted for both sold and bought credit protection, in order to test the main risk drivers of clearing member portfolios which would result in full depletion of the Guaranty Fund. With respect to hypothetical spread realizations, maximum levels would similarly be set to result in full depletion of the CDS guaranty fund.

The amendments also incorporate the overall Board risk appetite and limit framework, in a manner similar to other Clearing House policies. The amendments make various other drafting updates and clarifications. The amendments further address annual validation of models supporting the policy, procedures for routine review of the policy and procedures for escalation and notification of breaches of relevant thresholds.

Compliance with the Act and CFTC Regulations

The rule amendments are potentially relevant to the following core principles: (B) Financial Resources and (D) Risk Management and the applicable regulations of the Commission thereunder.

- *Financial Resources.* ICE Clear Europe believes that the amendments are consistent with, and will enhance, its ability to cover its financial exposures with a high degree of confidence. As discussed above, the amendments update various aspects of the stress testing methodology, which is used by the Clearing House to determine that its financial resources will be sufficient to meet its financial obligations in a range of extreme but plausible and extreme market conditions, in accordance with regulatory requirements. As a result, in ICE Clear Europe's view, the amendments are consistent with the requirements of Core Principle B and Commission Rule 39.11.
- *Risk Management.* The amendments are intended to enhance ICE Clear Europe's ability to manage its risks, and in particular its stress testing methodology. The amendments clarify the stress scenarios being tested as well as make certain enhancements to elements of its stress testing practices. These include addressing specific wrong way risk, introduction of new forward looking credit event stress testing scenarios, and clarification of the scaling factors used to generate extreme spread widening and tightening scenarios. In ICE Clear Europe's view, the amendments will thus enhance its ongoing stress testing practices and strengthen its overall risk management infrastructure. As a result, the amendments are consistent with the risk management requirements of Core Principle D and Commission Rule 39.13.

As set forth herein, the amendments consist of changes to the Stress Testing Policy. ICE Clear Europe has requested confidential treatment with respect to these amendments, which have been submitted currently with this self-certification submission.

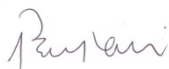
ICE Clear Europe hereby certifies that the amendments comply with the Act and the Commission's regulations thereunder.

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 patrick.davis@theice.com or +44 20 7065 7738 or Rachel Pearson, Legal Counsel, at rachel.pearson@theice.com or +44 20 7429 3065.

Very truly yours,



Patrick Davis
Head of Legal and Company Secretary