



September 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 – CDS Back-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 Back-Testing Policy (the “Back-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, updating and reorganizing certain provisions of its Back-Testing Policy to clarify certain test strategies, procedures and methodologies, correct certain typographical errors and update governance processes.

The amendments to the Back-Testing Policy include clarification as of the daily, weekly and monthly back-testing performed by the Clearing House at the Clearing Member account level.¹

The amendments further clarify the description of the daily back-testing for Clearing Member accounts and provide that back-testing results are reported to the Model

¹ Account for this purpose has the meaning specified in the Rules.

Oversight Committee and CDS Risk Committee on a monthly basis, including an exceedance summary, an example of which is shown in the Back-Testing Policy.

The provisions of the Back-Testing Policy setting out portfolio construction for back-testing the production margin model using special strategy portfolios has been amended to update strategy names, clarify the use of bought and sold protection positions, and use an additional strategy. The portfolio construction of the new strategy, iTraxx Senior Financial 5Y.OTR Arb, is the same as the construction of the existing special strategies but relates only to the iTraxx Senior Financials 5Y index. The amendments provide that with respect to each specified strategy, for completeness, the opposite strategy is taken into consideration.

The provisions of the policy relating to back testing of the Monte Carlo (“MC”) model has been revised to state that back-tests are performed daily on the Spread Response component of the Initial Margin using ICE Clear Europe’s MC model rather than the worst among the scenario based spread response approaches and the MC approach. The back-test will be performed on individual Clearing Member accounts using the risk approach for the Spread Response Initial Margin (and accordingly references to specific quantiles for testing have been removed). The back-tested risk measures include the sum of the MC VaR and the basis risk, interest rate and recovery rate quantities. The amendments remove an unnecessary distinction depending on whether the indices are decomposed.

The section regarding the full period back-testing results setting out the manner in which the back-tested component of initial margin and the profit and loss results for every back-tested day are reported for each Clearing Member for daily portfolio back-testing has been removed as unnecessary in light of the other provisions of the framework.

The amendments make certain changes to the Basel Traffic Light System exceedance summaries. Pursuant to the amendments, back-testing results of the production model for each Clearing Member’s account, special-strategy back-testing results of the production model and back-testing results of the MC model for each Clearing Member’s account will be reported at least monthly.

Various other changes are also being made to correct typographical and similar errors and to clarify use of certain defined terms and references. Certain outdated references to testing quintiles prior to the implementation of the European Market Infrastructure Regulation (EMIR) have been removed.

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 proposed amendments are designed to modify the Back-Testing Policy to clarify certain testing practices for CDS Contracts, including as to specific back-testing strategies under the production model, the back-testing of the Monte Carlo method, and the reporting of results. The amendments also adopt certain enhancements to the review and governance

processes for those policies. In ICE Clear Europe's view, these amendments will enhance the back-testing process and the overall risk management of the Clearing House, and are therefore 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 Back-Testing Policy. ICE Clear Europe has requested confidential treatment with respect to these amendments, which have been submitted currently with this self-certification submission.

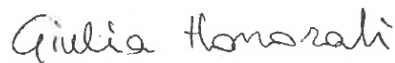
ICE Clear Europe hereby certifies that the amendments comply with the Act and the Commission's regulations thereunder.

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 giulia.honorati@theice.com or +44 20 7429 7127.

Very truly yours,



Giulia Honorati
Manager Regulation & Compliance