

October 22, 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 – F&O Risk Procedure

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, modifications to its F&O Risk Procedures. These revisions do not involve any changes to the ICE Clear Europe Clearing Rules or Procedures.¹

Concise Explanation and Analysis

ICE Clear Europe is proposing to amend its F&O Risk Procedures to enhance their clarity in relation to the margin account structure, certain margin add-on calculations methodology, the process for the monitoring and reporting of the back-testing results and the data management and governance document process.

The proposed amendments would apply to F&O Contracts that are margined using a one-business day margin period of risk (MPOR). The revised procedures ensure that the short descriptions of the various accounts offered by ICE Clear Europe would be aligned with the related terminology present in the ICE Clear Europe Clearing Procedures. They would also allow for the clarification of the ICE Clear Europe departments responsible for the review of the F&O margins’ parameters. The proposed amendments would also include certain other enhancements and clarifications, described below.

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



European Market Infrastructure (EMIR) add-on

The amendments would facilitate a more accurate description of the methodology with which the Clearing House currently complies with Article 26 of the EMIR Regulatory Technical Standards (RTS). The requirement prescribes that all Clearing Members' house and proprietary positions from affiliates of a Clearing Member use a minimum of a two-business day margin period of risk (MPOR).

The EMIR add-on ensures that at least a two- business day MPOR amount would be collected for these positions for products that would otherwise use a one- business day MPOR for initial margin.

The amendments would ensure an accurate explanation of the EMIR add-on calculation inclusion in the ICE Clear Europe end of day margins calculation process and of the fact that ICE Clear Europe does not publish parameter arrays used for calculating additional initial margins.

Back-testing

Several aspects of the F&O Risk Procedures addressing the back-testing process would be amended to enhance clarity and to ensure that the operational steps followed by ICE Clear Europe are accurately reflected in the F&O Risk Procedures. The amendments would cover the assumptions and the formula for the margin coverage calculation and its test methodology. In relation to the back-test statistics, the amendments would specify that the Clearing Risk Department (CRD) could apply at its discretion other back testing statistics, in addition to the standard Basel Traffic Light.

In relation to the macro back-testing the amendments would explain that if the model displays consistent and continuous red zone for some portfolios, ICE Clear Europe may require Clearing Members to provide for additional margin, referred to as super margin.

The amendments would also introduce a new section to the F&O Risk Procedures to address the margin coverage and back-testing monitoring and reporting process. The amendments would clarify, for both the macro and micro back-testing, the process for the daily creation of the relevant risk report for the top day breaches and the process for the related investigation by a Clearing Risk Department ("CRD") analyst and escalation process to senior CRD personnel. Each macro margin coverage breach is also presented monthly to the Model Oversight Committee and bi-monthly to the F&O Product Risk Committee. The amendments would also cover the frequency with which the back-testing statistics, for both macro and micro back-testing, are generated and the internal reporting process followed for the review of the related results. Back-testing results would be reported by CRD analysts daily to Clearing House senior management staff with respect to macro back-testing results, and with respect to macro and micro back-testing results, monthly to the Model Oversight Committee and bi-monthly to the F&O Product Risk Committee. A Risk Oversight Department ("ROD") analyst also reviews the macro level results and discusses details if necessary before presenting it to the Model Oversight Committee. Model remediation actions on a Clearing Member portfolio at a macro level or due to product backtesting results at a micro level would be flagged to senior management,

the Model Oversight Committee and the F&O Product Risk Committee. The same information regarding monitoring and reporting would also be summarized in a table which would specify the level of the back-testing, the name of the report that is generated, the metrics contained in each report, the storage system used by the Clearing House, the frequency of the generation of each report and the audience with whom it is shared.

Data Management

The amendments would also introduce a new section to the F&O Risk Procedures to define the different types and sources of data used by the CRD and the related controls. The amendments classify the data used by the CRD into either static or dynamic data, and explain which data are included in each category.

The amendments would also provide details on the data quality checks performed by the CRD on the static and dynamic data and on the historical prices.

The section would also describe the reasons for which the CRD is allowed to correct or exclude data from being used in the margin models or stress scenarios and require that the list of exclusions and corrections with related justifications be reviewed each month by the Model Oversight Committee.

Documentation Governance and Exception Handling

The amendments would also introduce a new section to the F&O Risk Procedures to describe the breach management process for the reporting and possible escalation of material breaches or unapproved deviations from the F&O Risk Procedures. The section would also include the description of the exception handling process and governance.

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. As noted above, the proposed amendments to the F&O Risk Procedures are intended to more accurately reflect Clearing House practice and to enhance the ICE Clear Europe internal processes with respect to the EMIR add-on application, the back-testing calculation, data management activity and document governance. This would enhance the Clearing House's ability to manage risk generally, and therefore promote the prompt and accurate clearance and settlement of transactions, and further the public interest in the sound operation of the Clearing House.

As a result, in ICE Clear Europe's view, the amendments are consistent with the requirements of Core Principle D and Commission Rule 39.13.

As set forth herein, the amendments of the F&O Risk Procedures. ICE Clear Europe has requested confidential treatment with respect to these documents, which have been submitted concurrently 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 Robert.Barlow@theice.com or +44 20 7429 4575.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Robert Barlow', written over a horizontal line.

Robert Barlow
Compliance & Regulatory Analyst