May 15, 2024

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

Re: ICE Clear Europe Self-Certification Pursuant to Commission Rule Rule 40.6 – Futures and Options Risk Procedures Amendments

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, amendments to its Futures and Options Risk Procedures (the "F&O Risk Procedures" or "Procedures"), among other matters, to reflect the introduction of the ICE Risk Model 2, to clarify certain calculations relating to uncollateralized stress loss and back-testing, to address the use of alternative data sources for products with limited pricing history and to make certain other clarifications and updates as discussed herein.[1] The amendments will 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 amending its F&O Risk Procedures principally to reflect the introduction of the ICE Risk Model 2 for certain products, consistent with the current ICE Clear Europe F&O Risk Policy. As a result, the existing discussion of the ICE Risk Model in the Procedures will be revised to refer to ICE Risk Model 1, which remains in use for other products, or to refer to both the ICE Risk Models 1 and 2, as appropriate. In addition, the amendments clarify the definitions of profit and loss as used for back-testing and the definition of uncollateralized stress loss. The amendments also address the use of alternative sources of data for products that have a limited pricing history. Various non-substantive drafting changes, clarifications and improvements will also be made throughout the document.

The amendments make certain non-substantive clarifications around the net or gross margining status of various accounts, including by removing as unnecessary certain references to US and EU regulatory requirements relating to the margin period of risk. The amendments revise the existing discussion of the ICE Risk Model to refer to ICE

[1] Capitalized terms used but not defined herein have the meanings specified in the F&O Risk Procedures or, if not defined therein, the ICE Clear Europe Clearing Rules.

Risk Model 1, to differentiate it from ICE Risk Model 2. Updates to the table summarizing the standard settings for daily computation of model margin rates under ICE Risk Model 1 will be revised to reflect that only some products will be subject to ICE Risk Model 1. Other changes clarify that the Margin Period of Risk (“MPOR”) will also depend on the account type and clarify the anti-procyclicality approach in light of requirements under the European Market Infrastructure Regulation (EMIR) applicable regulatory technical standards.

In the discussion of the review of Ice Risk Model 1 Margin Rates, the amendments add that the Clearing House will consider deviations of the Autopilot model rates from the production margin rates as a criterion for review, as set out in the F&O Risk Policy.

The amendments add a new section addressing ICE Risk Model 2, reflecting that it uses a filtered historical simulation approach for the calculation of initial margin. Outputs from the model are directly used in setting margin requirements, without need for specifically promoting model outputs as production margin rates (as is the case for ICE Risk Model 1). The amendments include a table setting out the standard settings for daily computation of initial margin requirements under ICE Risk Model 2, including as to frequency of calculation, confidence interval, margin period of risk, lookback period, return type, VaR type, anti-procyclicality approach and relevant risk factor inputs.

Further clarification of the different MPORs used in calculating initial margin will be added, consistent with an existing table. The amendments clarify that each product has a native MPOR, which may be adjusted depending on the margin account type. The amendments will note that accounts that are required to have a 2-day MPOR and hold 1-day products will be subject to an EMIR Add-on as part of the end-of-day margin calculation process, consistent with existing practice.

The amendments will add a section on procyclicality, which reflects that the initial margin calculation is subject to procyclicality mitigants depending on the contract and margin model. To ensure mitigants are meeting expectations, for a set of benchmark products procyclicality of initial margin requirements will be measured and assessed against the established thresholds. The thresholds reflect tolerance for procyclicality based on quantitative metrics. The amendments also address monitoring of procyclicality using short and long-term quantitative metrics as compared to the relevant thresholds, and set out relevant formulas used for this purpose. The amendments also provide for reporting and escalation of breaches of the procyclicality metrics. The Clearing Risk Department is responsible for reviewing the breaches of procyclicality metrics above the thresholds, as well as the potential impact of the breach. The amendments will list various factors that may be considered as part of the review of the breach. If determined to be necessary, remediation of a breach may involve a change in the initial margin model and/or changes in relevant margin parameters. The amendments also address escalation of the results of monitoring to senior risk personnel and the model oversight committee, as appropriate.

The amendments will also clarify that additional risks from concentrated positions are addressed through the Concentration Charge under ICE Risk Model 1 and the Liquidity Risk Charge under ICE Risk Model 2. The amendments also describe the Liquidity Risk Charge, as composed of a concentration charge and a bid-ask charge. The stress loss charge as described in the Procedures is being renamed "stress margin."

In the discussion of the standard intraday margin call window, the amendments clarify that the Clearing Risk Department makes intraday calls between 07:30 and 20:00 London Time only on business days.

The discussion of the F&O Guaranty Fund sizing would be revised to state, consistent with the Rules and relevant other procedures and current practice, that the F&O Guaranty Fund must be calibrated such that resources are sufficient to cover the default of at least the two Clearing Member groups with the largest exposures under extreme but plausible market conditions.

The discussion of back-testing will be revised to reference that practices include testing of margin rates, risk factors or synthetic portfolios (referred to as micro portfolio back-testing), as well as macro portfolios.

The amendments will make clarifying changes to the language on Margin Coverage to explain that it is calculated by comparing the Initial Margin requirement to the Profit and Loss ("P&L") of the portfolio. The amendments will add a new section further defining the calculation of P&L for this purpose, for both macros and micro portfolios. The amendments also clarify procedures for review of margin coverage breaches at the micro and macro levels and the review and remediation (where appropriate) of other back-testing statistics.

In addition, the amendments will provide for daily reporting of macro back testing results to all clearing members. The amendments otherwise clarify the timing of reporting of back-testing results to senior management and various committee (including risk committees).

The amendments make clear that the purpose of ICE Clear Europe's sensitivity analysis is to assess whether the Margin Coverage meets expectations when the model configurations change. The amendments will add a new subsection on Monitoring, Reporting and Escalation with respect to Sensitivity Testing, which addresses review of testing by the Clearing Risk Department and reporting of results to relevant ICE Clear Europe model oversight and risk committees.

In connection with stress testing and certain other calculations, the amendments will add a new subsection on uncollateralized stress loss, defined as the stress loss over eligible Margin requirements. The amendments address how the stress loss is calculated for each individual instrument and aggregated for each margin account, offsetting both long and short results. Furthermore, the amendments specify the initial margin and add-ons to be considered in the uncollateralized stress loss calculation. As amended, the Procedures discuss the use of stress testing to test the F&O Guaranty Fund size (as well as that of the relevant segments), and to determine to call for stress margin in the case of any shortfall. The amendments will specify the reporting for the stress testing results, including to clearing members, senior management and relevant ICE Clear Europe committees.

The amendments will add a new subsection on reverse stress testing, which compares the uncollateralized stress loss under scaled version of the stress scenarios and increasing number of Clearing Member Groups. These tests are run quarterly using the same methodology as for stress testing. The amendments also add reporting of reverse stress testing results to relevant ICE Clear Europe committees.

The amendments will make certain changes to the data quality checks used for market price data used in determining margin requirements and stress testing. Where there is no historical price data, the default approach will be to derive historical prices from one or more contracts of the same underlying that exist already. Alternatively, historical data can be based on an existing contract that has similar characteristics.

Finally, the amendments make certain overall clarifications relating to document governance, consistent with other ICE Clear Europe policies and procedures, including as to regular document review by the document owner, reporting of the review to the Executive Risk Committee, breach management and exception handling. Changes to the Procedures must be approved by the Executive Risk Committee.

Compliance with the Act and CFTC Regulations

The amendments to the F&O Risk Procedures are potentially relevant to the following core principles: (B) Financial Resources, (D) Risk Management and (O) Governance, and the applicable regulations of the Commission thereunder.

- *Financial Resources*. The amendments would, as discussed above, update the Procedures to incorporate the ICE Risk Model 2 and also clarify the definition of the uncollateralized stress loss metric. This metric in turn is used for calculation stress margin, shortfall margin, and the sizing and allocation of the Guaranty Fund. The amendments also clarify the considerations for calculating P&L, which is used in back-testing of Margin Coverage. The amendments thus support the Clearing House's ability to maintain sufficient financial resources to cover its exposures with a high degree of confidence, within the meaning of Core Principle B and Commission Rule 39.11.

- *Risk Management*. As set forth above, the amendments to the Procedures make certain clarifications and enhancements for F&O margin calculation in order to incorporate the ICE Risk Model 2 for certain products. Clarifications to anti-procyclicality measures are also added. The amendments also clarify the calculation of uncollateralized stress loss, which is used in determining the F&O Guaranty Fund size and stress margin requirements. Other amendments clarify back-testing, stress testing and reverse stress testing procedures. The amendments to the Procedures will thus facilitate the Clearing House's ability to measure and monitor its credit exposure and establish appropriate margin requirements to limit the Clearing House's exposure to potential losses from clearing member default. The amendments thus enhance the Clearing House's overall risk management and margin methodology, consistent with the requirements of Core Principle D and Commission Rule 39.13.

- *Governance.* The amendments also identify responsibilities of relevant ICE Clear Europe committees and personnel in relation to oversight of ICE Risk Models, including as to procyclicality, back testing, sensitivity testing, stress testing and reverse stress testing. The amendments to the Procedures also update the appropriate approval process for changes to the document. ICE Clear Europe believes that the amendments are therefore consistent with the governance requirements of Core Principle O and Commission Rule 39.24.

As set forth herein, the amendments consist of the amendments to the F&O Risk Procedures. ICE Clear Europe has requested confidential treatment with respect to the amendments, 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 received no substantive opposing views in relation to the 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 George.milton@ice.com or +44 20 7429 4564.

Very truly yours,

George Milton
Head of Regulation & Compliance