



August 13, 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 –
Revised Model Risk Policy

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, a new Model Risk Policy (the “Policy”), which will make certain amendments to the Clearing House’s current policies and practices as they pertain to model and parameter risks.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 adopting a new Model Risk Policy, which will supersede in its entirety the current policy. The revised Policy is intended principally to (i) more clearly align the Policy with the Clearing House’s Board Risk Appetite, (ii) incorporate industry best practice and (iii) make certain clarifications relating to the model inventory and the requirements for independent model validation. Various unnecessary or outdated references to other documentation and duplicative material have been removed from new Policy.

As revised, the Policy sets out its overall purposes as management of model risk aligned to the board risk appetite and the establishment of the minimum risk standards the Board expects for managing model risk. For this purpose, model risk is defined as the risk that a model does not perform as it was designed due to error/failure in the model specification, changes in the operating environment or inappropriate use.

The new Policy updates the discussions of the “three lines” model for managing risk to be consistent with other Clearing House policies.

¹ Capitalized terms used but not defined herein have the meanings specified in the Policy or, if not defined therein, the ICE Clear Europe Clearing Rules.



The new Policy updates the definitions and examples of models for purposes of the Policy, with more specific references to clearing activities, including models used for calculation of margin, models used for collateral haircuts and credit scoring, models used to estimate liquidity requirements and models for stress testing.

The new Policy includes expanded requirements relating to model inventory. Model owners are responsible for identifying models and the Risk Oversight Department is responsible for establishing a central model inventory. The Policy outlines key elements and details of material models that must be documented in the model inventory, as well as requirements as to keeping the inventory updated for new models or changes to existing models (including as a result of their annual review).

The Policy also contains more detailed procedures and requirements for model development, implementation, and use, consistent with industry best practice and regulatory requirements and guidance. With respect to model development, the requirements in the Policy address, among other matters, the basis for models, documentation of models, reliability of relevant data and testing. Requirements for implementation address accuracy and appropriate controls. Requirements around model use are intended to ensure that use is aligned to the intended purposes, and model parameters and calibration remain appropriate. Additional requirements relate to ongoing monitoring and testing.

The new Policy also outlines in greater detail the procedures for ongoing review of models, including the requirement for annual independent model validation for active material production models, consistent with existing practice. The purpose of the independent model validation is to ensure the model is “fit for purpose” and meets the Clearing House policy requirements for such models. The Policy sets out certain factors to be considered in an independent model validation. The minimum frequency of model validations required by the Policy is unchanged. Furthermore, the Policy does not include a time limit for validation of new model changes.

In the model parameters and model changes section, consistent with current practice, the new Policy distinguishes between business-as-usual and non-business-as-usual changes to model parameters. In a change from current practice, the new Policy requires Risk Oversight Department review and Model Oversight Committee approval, rather than independent model validation, of significant non-business-as-usual parameter changes. The new Policy also sets out procedures for review of model changes (both significant and non-significant), consistent with existing practice.

The Policy will also contain a section on model risk assessment, which documents and clarifies the overall risk assessment approach aligned with the Board Risk Appetite. Consistent with existing practice, model risks must be assessed at least annually, or if there is a risk event. The Policy requires assessing both inherent and residual risk. For this purpose, inherent risk represents the level of risk that ICE Clear Europe faces in the absence of mitigations or controls, taking into account the materiality and complexity of the material models used. Residual risk represents the level of risk that remains after taking into consideration the impact of any mitigations or controls in

place. The residual risk assessment must determine the likelihood of the risk occurring and its impact, taking into account various identified factors. .

The Policy describes procedures for ongoing periodic review of the Policy, breach management, exception handling and document governance, in a manner generally consistent with other ICE Clear Europe policies. The Policy identifies relevant personnel responsible for ensuring that the Policy remains up-to-date and reviewed in accordance with the Clearing House's governance processes. Any changes to the Policy will have to be reviewed by the Model Oversight Committee, followed by review by the Board Risk Committee to recommend for Board approval.

An appendix to the Policy outlines significance thresholds for key measures relating to material models.

Compliance with the Act and CFTC Regulations

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

- *Risk Management.* As set forth above, the new Policy is intended to more clearly document practices relating to review and management of model risk and make certain enhancements to those practices. The revised Policy is designed to align with the overall Board Risk Appetite and clarify the overall approach to model risk assessment. The new Policy clarifies aspects of the model definition and model inventory, procedures relating to independent validation, and procedures relating to model development, implementation and use. The revisions also remove unnecessary, outdated and duplicative provisions. As such, the new Policy will enhance with the overall management of model risk for the Clearing House, consistent with the requirements of Core Principle D and Commission Rule 39.13.
- *Governance.* As discussed above, the new Policy sets out the policy review, breach management, exception handling and documentation governance practices relating Risk Model procedures, in a manner consistent with other ICE Clear Europe policies and procedures. The new Policy also more clearly set out the roles of relevant personnel and committees in the model review process. In ICE Clear Europe's view, the amendments are therefore consistent with the requirements of Core Principle O and Commission Rule 39.24.

As set forth herein, the amendments consist of the adoption of the new Model Risk Policy. ICE Clear Europe has requested confidential treatment with respect to the Policy, which has 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@theice.com or +44 20 7429 4564.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'G. Milton', is positioned above the typed name.

George Milton
Head of Regulation & Compliance