



February 25, 2021

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 40.6 –
Futures and Options Risk Policy and Futures and Options Risk Procedures
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 Futures and Options Risk Policy (the “F&O Risk Policy” or “Policy”) and Futures and Options Risk Procedures (the “F&O Risk Procedures” or “Procedures”) 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 the F&O Risk Policy to remove the description of the capital to margin ratio as a basis for requesting additional initial margin or a reduction in positions to reduce the required initial margin level. ICE Clear Europe is also amending its F&O Risk Procedures to (i) update certain processes, escalations and controls with respect to the review of the IRM margin rate parameters, (ii) update the existing descriptions of review and testing processes for additional margin calculation methodologies, (iii) add a description of the Clearing House’s use of delivery margin, net liquidating value, intraday buffers, overnight buffers, and ad hoc buffers as margin calculation methodologies and (iv) make various other drafting clarifications and

¹ Capitalized terms used but not defined herein have the meanings specified in the ICE Clear Europe Clearing Rules and the F&O Risk Procedures.

improvements. These amendments will result in the retiring of ICE Clear Europe's existing F&O Concentration Charge Policy ("F&O Concentration Charge Policy") as the F&O Risk Policy and F&O Risk Procedures (as amended) render such Future and Options Concentration Charge Policy redundant.

I. Futures and Options Risk Policy

The Policy is being revised to remove section 2.2.6, which describes the capital to margin ratio, from the additional margin requirements discussion. The description is being removed as the ratio is not in itself necessarily the basis of additional margin requirements and is addressed in other existing ICE Clear Europe policies and procedures. This amendment does not reflect a change in Clearing House practice or margin methodology. Certain minor non-substantive typographical updates are also being made to the Policy.

II. F&O Risk Procedures

IRM Margin Rate Parameters

Amendments to the Procedures update the standard parameters for daily calculation of the calibrated IM rate (the so-called "Autopilot" or "AP" rate) to reference inter-contract volatility spreads. The amendments update and clarify certain processes for the routine periodic review of the production margin rate (which is the actual rate used in the margin calculation generating CMs' Core IM requirements, and is typically based on the Autopilot rate). Specifically, the amendments clarify that details of proposed parameters and margin impact along with justification for any manual overrides from the Autopilot rate need to be approved by the CRO and the President of ICEU or their deputies. The amendments provide that the CRD can inform exchange staff (instead of sales staff) at its discretion for information about the margin update. The amendments also remove a process for the CRD to receive feedback on proposed parameters by sales staff or management, which the Clearing House views as unnecessary in light of the procedures for senior management approval. Furthermore, the amendments provide that upon review and approval of specific Senior Management Team members, the CRD promotes the rates into the risk system. The CRD refreshes the Product Report to perform a check on the rates to go live. One such check would be to ensure no cross-asset class inter-commodity spread (ICS) parameters are larger than 80%. Any correction to the promoted rates would be made at such point.

The summary table of the review and promotion process for IRM margin rate parameters is updated to reflect the Clearing House's current practices with respect to the testing and frequency of testing for such IRM margin rate parameters. Specifically, daily checks flagging any difference between production rate and AP rate using a threshold of 20% where AP is larger than production is used. Additionally, monthly checks will flag any difference between production rate and AP rate for material parameters using a threshold of 20% relative difference where AP is larger than production scanning rate, and 20% absolute difference where production is larger than AP ICS rate.

Parameter Review and Recalibration

The amendments clarify that exceptions driving an ad hoc review and parameter recalibration will be subject to notification to the Risk Oversight Department (“ROD”) in addition to Senior CRD (director or above) decision. This clarification is made throughout the Procedures with respect to parameter review and recalibration.

IRM Parameterization

This section is amended to correctly reference relevant model documentation. The summary of the review process is updated to add that ad hoc reviews will be triggered by large deviations in the daily sensitivity report.

Additional Initial Margin

Amendments to the section of the Procedures relating to concentration charges update the testing frequency for product review and group mapping requirements from at least annually to monthly for a subset of products, and otherwise quarterly.

With respect to the Stress Margin or Stress Loss Charge (“SLC”) additional Initial Margin calculation methodology, the Procedures update the testing and frequency with respect to the SLC process from no specific test to provide for Daily Cover 1 and Cover 2 tests where the largest uncollateralized stress loss of a single member and pair of members, respectively, is determined. Any SLC top up would be called from the member. Furthermore, with respect to the SLC process for stress scenarios and proxy mapping, the amendments update the frequency of review to provide that PCA EVT scenarios (i.e., those combining principal component analysis and extreme value theory) will be reviewed at least quarterly. Monthly testing with respect to PCA EVT monitoring will be reported to the MOC.

The amendments update the description of F&O guarantee fund (GF) requirements to clarify that GF size corresponds to the maximum of the largest cover 2 loss over the last month or the average cover two losses over the last three months plus one standard deviation. This change conforms to current practice and does not reflect a change in methodology.

Regarding the Clearing House’s Wrong-Way Risk (WWR) Requirements, the amendments update the testing/frequency of the WWR process to add that index weights will be reviewed quarterly.

With respect to the EMIR add-on calculation methodology, the testing frequency are updated to provide for monthly backtesting on benchmark products using a one-day margin period of risk and a daily check for benchmark products using a two-day margin period of risk. Ad hoc review will be dependent on test results, margin behavior during high volatility periods, and market expert feedback, rather than being only applicable for H and F accounts.

The updates to the procedures add a new section addressing “Delivery Margins”, which adds a description of the Clearing House’s existing use of delivery margins to mitigate any payment or delivery risks during the delivery timeline of physically delivered products. Such delivery margins include: (i) delivery margin, which is

designed to cover any price movement on the product in delivery, (ii) buyer security, which is the notional value of the prompt portion of the contract in delivery, (iii) seller security, which is the additional charge on the seller to cover the situation where the seller is unable to deliver agreed product, and (iv) contingent variation margin, collected against difference between spot price and end of day settlement price between the last trading day and collection of buyer's security. The amended Procedures also include a summary table that describes details of the delivery margin, buyer/seller security, and contingent variation margin.

The amendments to the Procedures also add a new section describing the Clearing House's existing practices regarding net liquidating value of certain "equity-style" margined F&O options. For such options, the option premium must be paid/ received at inception of the trade and the daily option value held as a credit or debit against the margin account for the remainder of the open position. The level of NLV credit/debit will be recalculated each day according to the option settlement price and any top up will be called the following day. A summary table of the details of the NLV determination is included.

The updates to the Procedures add a new section regarding "Intraday and Overnight Buffer", which summarize the existing ability of Clearing Members to post an additional buffer each day to offset intraday margin shortfall. The provisions reference existing descriptions of intraday and overnight buffers in the Procedures. A summary table of the intraday and overnight buffers is also included.

Finally, the updates to the Procedures add a new section describing "Ad-Hoc Buffer", which state that Clearing Members may be requested to post additional buffers for various risks not otherwise covered in the Procedures. Such requirements will be set by the Risk Senior Management and the Credit Risk team. A summary table of the ad-hoc buffer is included. The amendments are intended to describe more clearly an existing authority of the Clearing House.

Other General Drafting Clarifications and Improvements

The amendments define previously undefined terms such as "CRO" (Chief Risk Officer). Various typographical and similar corrections are also made throughout the Procedures.

Compliance with the Act and CFTC Regulations

The amendments to the Delivery Procedures 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.* The amendments to the Procedures clarify that the GF size corresponds to the maximum of the largest cover 2 loss over the last month or the average cover 2 two losses over the last three months plus one standard deviation, consistent with current practice. In addition, the amendments to the F&O Risk Policy and the F&O Risk Procedures are

intended to more clearly reflect the margin and guaranty fund methodologies used by the Clearing House to calibrate its financial resources to the risks faced by the Clearing House, through improvements to the description and review and testing of relevant methodologies. The amendments will thus support maintenance of the appropriate level of financial resources of the Clearing House, consistent with the requirements of Core Principle B and Commission Regulation 39.11.

- *Risk Management.* The amendments to the F&O Risk Procedures and F&O Risk Policy are designed to strengthen ICE Clear Europe's tools to manage the risk of losses resulting from defaulting Clearing Members' portfolios. The amendments update and clarify the processes, controls and escalations with respect to the testing and reviewing Clearing Members' Initial Margin requirements and related parameters. The amendments also more clearly describe certain types of additional margin and calculation methodologies and clarify the procedures for the testing and review thereof. Through better managing risks in default scenarios and promoting market stability, the amendments promote the stability of the Clearing House and the prompt and accurate clearance and settlement of cleared contracts. The amendments thus enhance the Clearing House's overall risk management, consistent with the requirements of Core Principle D and CFTC Rule 39.13.

As set forth herein, the amendments consist of the amendments to the Policy and Procedures. ICE Clear Europe has requested confidential treatment with respect to the amendments, which have been submitted concurrently with this self-certification submission.

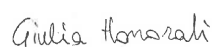
ICE Clear Europe hereby certifies that the amendments comply with the Act and the Commission's regulations thereunder.

ICE Clear Europe received no substantive opposing views in relation to the proposed 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, Compliance and Regulation

