FOIA CONFIDENTIAL TREATMENT REQUESTED

May 26, 2022

VIA CFTC PORTAL
Mr. Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Amendments to ICE Clear U.S., Inc. Rules Related to ICE Risk Model 2.0 - Submission Pursuant to Section 5c(c)(1) of the Commodity Exchange Act and Commission Regulation 40.6(a)

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended ("Act"), and Commodity Futures Trading Commission ("Commission") Regulation 40.6(a), ICE Clear U.S., Inc. ("ICUS") is submitting this self-certification to amend the ICUS Rules,[1] specifically the ICUS Risk Management Framework. ICUS intends to revise the Risk Management Framework no sooner than the tenth business day following the filing of this submission with the Commission, or such later date as ICUS may determine. ICUS has respectfully requested confidential treatment for these amendments to the Risk Management Framework which were submitted concurrently with this submission.

1. Overview

ICUS's Risk Management Framework contains the models used by ICUS to determine the initial margin requirements for its Clearing Members. Specifically, ICE Risk Model 1.0 ("IRM 1.0") and ICE Risk Model 2.0 ("IRM 2.0").[2] Currently, IRM 2.0 is used to determine -- on a portfolio basis -- the initial margin requirement for all contracts cleared by ICUS that reference equity indices and IRM 1.0 is used to determine the initial margin requirement for all other contracts cleared by ICUS. Following a periodic, independent validation of the IRM 2.0 margin model (the "Independent Validation"), ICUS is proposing to amend the Risk Management Framework to refine certain components of the model ("General RMF Amendments"). ICUS is also proposing to amend the Risk Management Framework to bring 2, soon to be launched, new futures contracts that will

[1] Capitalized terms used and not defined in this submission have the meaning set forth in the ICUS Rules.
[2] IRM 2.0 has been live, in continuous and successful production, since January 24, 2022, following a voluntary submission to the Commission requesting approval of the proposed Risk Management Framework amendments required to implement the new margin model. That submission (the "Original IRM 2.0 Submission") was filed with the Commission on September 1, 2021.

reference interest rates linked to residential mortgages (the “Mortgage Rate Lock Index Futures”)[3] under the IRM 2.0 margining umbrella (“Mortgage Rate Futures RMF Amendments”).

2. Details of Rule Changes

General RMF Amendments: As described in the Original IRM 2.0 Submission, ICUS deploys (among other components) hard and soft volatility floors in the scaling process that determines the scaled risk factors that are used as part of the initial margin determination for IRM 2.0. ICUS is proposing that for all contracts that reference equity indices, the hard volatility floor will remain unchanged, but the soft volatility floor which is based on historic exponentially weighted moving average (or EWMA) estimates will be increased as a result of an updated calibration methodology. This is a conservative modification that fine-tunes how the model will respond to increased market volatility and it was determined by the Independent Validation to be appropriate. In addition, going forward, for any non-equity products margined pursuant to IRM 2.0, these proposed amendments provide that the hard volatility floor will be set at 0% (effectively disabled) and the soft volatility floor will be set at the same level for all products. It is not always possible to rationally devise and/or implement a hard volatility floor. This approach was also determined by the Independent Validation to be appropriate. It is a more scalable and efficient approach that will enhance ICUS’s ability to monitor and manage the risks it faces and the ability of internal audit to assess ICUS’s performance in this regard. In addition, ICUS is also proposing several conforming changes to the Risk Management Framework so that IRM 2.0 can potentially be extended (subject to internal governance and necessary regulatory approval) to cover additional asset classes in the future.

Mortgage Rate Futures RMF Amendments: As outlined in the Original IRM 2.0 Submission, IRM 2.0 establishes initial margin requirements based on portfolio-level risk. In doing so, it considers a given portfolio's diversification by analyzing the historical performance of the entire portfolio. IRM 2.0 utilizes a Filtered Historical Simulation Value-at-Risk ("Filtered HVaR") methodology. The Filtered HVaR methodology de-volatizes historical price returns and, in doing so, removes volatility trends existing at a given time and then re-volatizes (or scales) the time series using current market conditions. By design, IRM 2.0 conservatively and dynamically calculates initial margin requirements to address and account for the risks presented by different market environments. The Filtered HVaR methodology ensures that IRM 2.0 establishes with the required high degree of confidence (at least 99%) that the losses resulting from adverse market price movements, over a given holding period (1-day for customer origin, 2-days for house origin), for a given portfolio, will not exceed the initial margin requirement established by IRM 2.0. ICUS is proposing to amend its Risk Management Framework to margin the ICE Futures U.S. (“IFUS”)

[3] Specifically, the Mortgage Rate Lock Index Futures will reference: (i) the ICE U.S. Conforming 30-year Fixed Index which will track the interest rates on fixed rate 30-year first-lien mortgage applications on single-family conventional conforming loans; and (ii) the ICE U.S. Jumbo 30-year Fixed Index which will track the interest rates on fixed rate jumbo 30-year first-lien mortgage applications on single-family loans. The indices are administered by ICE Data Indices, LLC (“IDI”). IDI is responsible for the implementation of appropriate governance and oversight, as required under the International Organization of Securities Commission’s Principles for Financial Benchmarks.

Mortgage Rate Lock Index Futures using IRM 2.0. The use of IRM 2.0 to portfolio margin the Mortgage Rate Lock Futures was validated by the Independent Validation, which was performed by an independent, unaffiliated, third-party contractor, consistent with Commission Regulation 39.13(g)(3).

3. Compliance with the Act and Regulations

ICUS reviewed the foregoing amendments and determined that they comply with the requirements of the Act and the rules and regulations promulgated by the Commission in implementing the Act. In this regard, ICUS reviewed the derivatives clearing organizations core principles ("Core Principles") and determined that the amendments are potentially relevant to the following Core Principle and the applicable regulations of the Commission thereunder:

Risk Management (Core Principle D):

General RMF Amendments: These amendments will, consistent with CFTC Regulation 39.13(b), bring greater clarity to ICUS's written policies, procedures and controls, and help to enhance how ICUS identifies and documents the range of risks to which it is exposed. These amendments will also improve ICUS's ability to monitor and manage the entirety of those risks and provide greater visibility for internal audit purposes.

Mortgage Rate Futures RMF Amendments: Consistent with Commission Regulation 39.13(g)(2)(iii), ICUS has determined that portfolio margining Mortgage Rate Lock Index Futures using IRM 2.0 will meet an established confidence level of at least 99%, both in terms of actual coverage of the resulting initial margin requirements, and the projected measures of the performance of IRM 2.0 for this purpose. ICUS intends to margin the Mortgage Rate Lock Index Futures with the contracts cleared by ICUS that reference equity indices ("Equity Index Futures") on a portfolio basis. And, consistent with Commission Regulation 39.13(g)(7), using data from an appropriate historic time period, ICUS has performed back tests that demonstrate IRM 2.0's performance at the required confidence level in establishing the margin requirement for Mortgage Rate Lock Index Futures, on a freestanding basis and combined with Equity Index Futures. As detailed in the Original IRM 2.0 Submission, in determining portfolio level risk and associated initial margin requirements, to the extent that IRM 2.0 allows for reductions in initial margin requirements for related positions, the model has an inherent, imbedded conceptual basis (that incorporates, among other things, exhibited statistical correlations between observations of historic prices that were influenced by common external factors, as well as a significant common input) to ensure that the price risks with respect to such positions are significantly and reliably correlated. For these reasons, the proposed portfolio margining of Equity Index and Interest Rate Futures, using the IRM 2.0 margin model, will provide for reductions in initial margin requirements for positions that are reliably and significantly correlated, with a reasonable conceptual and theoretical basis for doing so, consistent with Commission Regulation 39.13(g)(4)(i).

IRM 2.0 limits the netting benefits (or potential reductions in the initial margin requirements) between Equity Index and Mortgage Rate Lock Index Futures by establishing a "diversification benefit cap" of 50%, which means that the potential margin reduction as a result of netting benefits between the product groups will not be greater than 50% of the sum of the initial margin requirements computed without offsets. In this way, the adverse effect of unanticipated changes in the correlation between the products -- and the potential increase in portfolio risk -- is significantly mitigated in advance. The Independent Validation determined that this approach is appropriate and conservative. Finally, consistent with Commission Regulation 39.13(g)(4)(ii), the foregoing netting benefits will be regularly reviewed.

As a result, the proposed General RMF Amendments, as well as portfolio margining Equity Index and Interest Rate Futures using IRM 2.0, and the proposed Mortgage Rate Futures RMF Amendments implementing that, are consistent with the requirements of Core Principle D and Commission Regulations 39.13 and 39.36.

4. Certifications

ICUS certifies that the proposed amendment to its Risk Management Framework complies with the Act and the rules and regulations promulgated by the Commission thereunder. ICUS is not aware of any substantive opposing views expressed regarding the amendment. ICUS further certifies that, concurrent with this filing, a copy of this submission was posted on ICUS's website, and may be accessed at https://www.theice.com/clear-us/regulation.

If you or your staff have any questions or require further information regarding this submission, please do not hesitate to contact the undersigned at (212) 748-3964 or Eamonn.Hahessy@ice.com.

Sincerely,

Eamonn Hahessy
General Counsel and Chief Compliance Officer