November 15, 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, 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 initial margin requirements. Specifically, ICE Risk Model 1.0 ("IRM 1.0") and ICE Risk Model 2.0 ("IRM 2.0"). When initially implemented, IRM 2.0 was used to determine -- on a portfolio basis -- the initial margin requirement for all contracts cleared by ICUS that reference equity indices ("Equity Index Futures") but it was always designed to cover additional asset classes, and to do so on a portfolio basis, when portfolio margining is determined to be appropriate and consistent with the Commission's regulations.[2] Shortly after IRM 2.0 was implemented, ICUS determined to clear, for the first time, contracts that reference interest rates.[3] After careful analysis, ICUS determined that it would be appropriate to margin those interest rate contracts using IRM 2.0 -- on a portfolio basis -- with the Equity Index Futures. To do so, among other things, ICUS had to amend its Risk Management Framework to explicitly make IRM 2.0, consistent with the original design and intent of the model, more generic, so that it could apply, in addition to equity indices, to asset classes

[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, filed on September 1, 2021 (the "Original IRM 2.0 Submission").
[3] Specifically, 2 futures contracts that reference indices of mortgage interest rates ("Mortgage Index Futures").

generally, including but not limited to the new interest rate contracts.[4] Following a May 26, 2022 self-certification filing (the "May 26 Submission"), ICUS made those amendments to the Risk Management Framework. In the context of the pending listing by ICE Futures U.S., Inc. ("IFUS") of 2 additional contracts that reference interest rates, specifically the New York Federal Reserve's Secured Over Night Financing Rate ("SOFR Contracts"), ICUS is proposing additional amendments to the Risk Management Framework to refine the generic language implemented following the May 26 Submission to accommodate margining the SOFR Contracts using IRM 2.0.[5]

2. Details of Rule Changes

Some of the language in the Risk Management Framework describing how contracts are grouped for the purposes of determining the Liquidity Risk Charge ("LRC"), a component of the IRM 2.0 margin requirement which is described in detail in the Original IRM 2.0 Submission, is not appropriate for the SOFR Contracts. When determining the LRC, contracts with one or more expiries are grouped into Liquidity Buckets using Representative Instruments (or RIs). As currently drafted, the Risk Management Framework assumes that the RI for each Liquidity Bucket will always be the front month contract. Using the front month contract as the RI for the SOFR Contracts would not, however, be appropriate because they are averaging contracts that display day-to-day risk profile variations, whereas using the second month SOFR Contract will provide a more stable day-to-day profile. Accordingly, ICUS is proposing to amend the Risk Management Framework to provide the flexibility to use contracts other than the front month as the RI for Liquidity Buckets when calculating the LRC. These changes will accommodate IRM 2.0's application to the SOFR Contracts and more broadly refine the generic language implemented following the May 26 Submission.[6]

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):

These amendments ensure that the Risk Management Framework is clear and appropriately documented with language that reflects the prudent risk management of the SOFR Contracts.

---

[4] While IRM 2.0, as currently drafted, could cover a broad range of asset classes, it would require extensive amendments if, for example, ICUS were to decide, at some point in the future, to use it to determine the margin requirement for its existing "soft" or agricultural products.

[5] That listing by IFUS is subject to necessary regulatory filings and/or approval. The 2 SOFR Contracts are (i) the ICE One-Month SOFR Index Futures and (ii) the ICE Three-Month SOFR Index Futures.

[6] This amendment is also potentially relevant to other contracts in the future. In addition, ICUS is also proposing similar changes (also designed to introduce greater flexibility) to the way in which the Risk Management Framework establishes Charge Groups when calculating the LRC. This change is not required for the SOFR Contracts, but it could be relevant to other contracts in the future.

These amendments, however, reflect a small part of ICUS's overall analysis and review of the SOFR Contracts and the prudent and appropriate risk management of them. As part of that broader analysis and review, ICUS has determined that portfolio margining the SOFR Contracts 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 requirement, and the projected measures of the performance of IRM 2.0 for this purpose, consistent with Commission Regulation 39.13(g)(2)(iii). ICUS has also determined, consistent with Commission Regulation 39.13(g)(7), with back tests using data from an appropriate historic time period, that IRM 2.0 performs at the required confidence level in establishing the margin requirement for the SOFR Contracts, on a freestanding basis, and combined with the Equity Index and Mortgage Index Futures. And, 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 will provide for reductions 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).[7] Finally, using IRM 2.0 to portfolio margin the SOFR Contracts was validated by an independent validation which was performed by an unaffiliated, third-party contractor, consistent with Commission Regulation 39.13(g)(3).

As a result, the proposed amendments 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

[7] As with the Mortgage Index Futures, IRM 2.0 limits the netting benefits between the SOFR Contracts and Equity Index Contracts by establishing a "diversification benefit cap" of 50%, which means that the potential margin reduction between these product groups will not be greater than 50% of the sum of the initial margin requirements computed without offsets, mitigating the adverse effect of unanticipated changes in the correlation between the products in advance.