



December 5, 2018

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

Re: Self-Certification Pursuant to Commission Rule 40.6 – F&O Stress Testing Policy

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 rule amendments discussed herein to formalize the ICE Clear Europe F&O Stress Testing Policy.<sup>1</sup> The amendments are to become effective on the first business day following the tenth business day after submission, or such later date as ICE Clear Europe may determine. This submission amends and restates in its entirety the Rule 40.6 submission by ICEU dated November 28, 2018.

*Concise Explanation and Analysis*

ICE Clear Europe proposes to update and formalize its F&O Stress Testing Policy. The Clearing Risk Department is the owner of the F&O Stress Testing Policy and is responsible for ensuring that it remains up-to-date and that it is reviewed in accordance with policy requirements.

The objective of the F&O Stress Testing Policy is to ensure the F&O Guaranty Fund is adequate to cover at least the two largest Clearing Member uncollateralised losses (i.e., losses over Clearing Member account’s requirements). The F&O Guaranty Fund protects the Clearing House against losses over and above margin that may be

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<sup>1</sup> Capitalized terms used but not defined herein have the meanings specified in the ICE Clear Europe Clearing Rules (the “Rules”).

experienced during periods of extreme market volatility. Stress tests are used to test the adequacy of the F&O Guaranty Fund size.

The F&O Stress Testing Policy describes ICE Clear Europe's stress test principles, including frequency and reporting. The stress test results of Clearing Member portfolios are calculated daily and reported internally on a daily basis. The F&O Risk Committee reviews historical daily stress test results on a bi-monthly basis. The Clearing House will review internally the stress scenarios on a regular basis and inform the F&O Risk Committee where additions or changes to the scenarios employed have a material impact on the stress results. The F&O Stress Testing Policy also provides an overview of ICE Clear Europe's stress loss calculation and stress shock calibration methodologies.

The F&O Stress Testing Policy describes and defines the types of F&O stress testing scenarios and their application. The Clearing House has two types of scenarios used to size the F&O Guaranty Fund: historical and theoretical scenarios. The historical stress scenarios aim to select the most significant historic events in terms of extreme price movement of the relevant underlyings, and then replicate as accurately as possible the historic event that has been selected across the full range of cleared products and apply these stress-tests to contemporary positions. Theoretical scenarios are constructed using plausible combinations of extreme price moves that are not contained within the set of historical scenarios, including group or sector specific stresses. The development of these hypothetical and extreme scenarios is tailored to the specific risks of the products and markets served. They are designed to measure the response of Clearing Members' portfolios to extreme conditions, and to assess the sufficiency of the available Guaranty Fund. Additionally, for other theoretical scenarios, ICE Clear Europe constructs theoretical scenarios, which are constructed of changes to macroeconomic events that are considered plausible given qualitative analysis of current market and geopolitical conditions. These scenarios are labelled "hypothetical".

The policy also describes ICE Clear Europe's reverse stress testing practices, which act as a tool to supplement existing stress analysis. Such scenarios follow the similar frequency and reporting as the standard stress test scenarios. Rather than sizing the F&O Guaranty Fund, these scenarios examine the magnitude of the stress required to exhaust the F&O Guaranty Fund size. Both historical reverse stress tests and theoretical stress tests are performed. Reverse stress test scenarios results are reviewed and presented monthly to the F&O Risk Committee.

The F&O Stress Testing Policy describes how ICE Clear Europe aggregates stress test results. The uncollateralised stress losses across all scenarios per Clearing Member and sub-account are calculated. The worst case result for each Clearing Member, by sub-account including segregated sponsored principal accounts, is then compared with the margin account's requirements in respect of the Clearing Member. Where the stress-testing result is greater than the margin account's requirements, by sub account, this modelled loss above requirement or shortfall is recorded as an uncollateralised stress-testing loss. In order to derive the two largest uncollateralised losses, individual uncollateralised stress loss at each Clearing Member account is aggregated into the financial institution group.

The F&O Stress Testing Policy also describes how stress test results are reviewed and escalated. As noted above, daily stress testing results must be reviewed daily by Senior Clearing Risk Department staff. A bi-monthly summary of any significant events in the stress testing will be presented to the F&O Risk Committee. Further, trigger levels will be set to flag certain events, e.g. when a Clearing Member's stressed losses exceed a predetermined percentage of its Original Margin requirement (but the change is not affecting the Guaranty Fund). In the event of a trigger of such event, Senior Clearing Risk Department staff will determine what action to follow, dependent on the nature of the event and Clearing Member to which it applies. The F&O Stress Testing Policy contains a non-exhaustive list of available actions.

The F&O Stress Testing Policy also includes reference to the Board risk appetite, and lists the escalation and notification protocols for each risk appetite metric. Each risk appetite metric is calculated as per its predetermined frequency, has a defined threshold in accordance with the latest calibration process, and is routinely reported to the Board and its committees as part of the Risk Appetite Metric Dashboard.

ICE Clear Europe is proposing enhancements to the F&O Stress Testing Policy. Appendix 2 to the policy has been revised to remove the list of scenarios and replace with the scenario shock calibration methodology, which was previously contained with the main body of the policy. Information regarding the frequency and reporting of stress test results has been updated to reflect current practice (as described above). In regards to determining the worst case stress loss result for each Clearing Member, ICE Clear Europe has added a reference to its model documentation, which describes the requirements considered as stress losses offset (including stress margin). Finally, ICE Clear Europe has made non-material clean-up and clarification changes throughout the policy, to ensure consistency throughout the document, enhance readability and remove redundant language.

#### *Compliance with the Act and CFTC Regulations*

The amendments 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.* ICE Clear Europe believes that the amendments are consistent with, and will enhance, its ability to cover its financial exposures with a high degree of confidence. As discussed above, the policy sets forth ICE Clear Europe's F&O stress testing methodology, which is used by the Clearing House to determine that its financial resources will be sufficient to meet its financial obligations in a range of extreme but plausible and extreme market conditions, in accordance with regulatory requirements. As a result, in ICE Clear Europe's view, the amendments are consistent with the requirements of Core Principle B and Commission Rule 39.11.
- *Risk Management.* The amendments are intended to enhance ICE Clear Europe's ability to manage its risks, and in particular its stress testing methodology. The amendments set forth the stress scenarios being tested as well as the elements of ICE Clear Europe's stress testing practices. In ICE

Clear Europe's view, the amendments will thus enhance its ongoing stress testing practices and strengthen its overall risk management infrastructure. As a result, the amendments are consistent with the risk management requirements of Core Principle D and Commission Rule 39.13.

As set forth herein, the amendments consist of the formalization of the F&O Stress Testing Policy. ICE Clear Europe has requested confidential treatment with respect to the F&O Stress Testing Policy, which has been submitted concurrently with this self-certification submission.

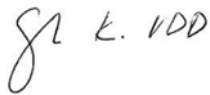
ICE Clear Europe hereby certifies that the amendments comply with the Act and the Commission's regulations thereunder.

ICE Clear Europe has received no substantive opposing views in relation to the proposed rule 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 [carolyn.vandendaelen@theice.com](mailto:carolyn.vandendaelen@theice.com) or +44 20 7429 4515.

Very truly yours,

A handwritten signature in black ink, appearing to read 'C. Van den Daelen'.

Carolyn Van den Daelen  
Head of Regulation & Compliance