



September 13, 2023

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  
– Model Risk Policy 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, amendments to its Model Risk Governance Framework (to be renamed the Model Risk Policy) (the “Model Risk Policy” or the “Policy”) to make certain enhancements to the Clearing House’s current policy and practices as they pertain to model and parameter risks.<sup>1</sup> 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 its Model Risk Governance Framework (to be renamed the Model Risk Policy) to expand its current scope to include certain risk frameworks and to distinguish between “Business As Usual” (“BAU”) and non-BAU parameter changes, among other changes discussed herein.

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

The amendments will expand the scope of the Policy to include risk frameworks used to quantify, aggregate and manage the risks of the Clearing House. The amendments will further clarify that references to “model” in the rest of the document will refer to both models and risk frameworks. The discussion of the architecture supporting the Policy will be revised to also include guidelines for the remediation of validation findings relating to models.

The amendments will also state that changes to risk parameters will be categorized as significant and not significant. This will follow the same categorization under the existing Policy with respect to model changes. A footnote referencing a specific ESMA opinion as providing the criteria defining model change significance will be revised to state more generally that the criteria will be in accordance with prevailing regulatory opinions, guidelines or requirements (in order to take into account any other regulatory positions that may be in effect from time to time). Moreover, the changes to parameters will be categorized as Business as Usual (“BAU”) and Non-BAU. Changes considered BAU will be defined as changes in the parameters resulting from the application of existing methodologies as part of a regular review or calibration exercise. Non-BAU changes will be all other changes. The amendments will clarify that the definition of BAU will be in accordance with existing regulatory guidelines.

The amendments will also clarify certain governance responsibilities. The Board will be responsible for the approval of significant non-BAU changes to risk parameters. Auto Pilot versus Production deviations beyond BAU thresholds will generally follow a similar governance process to that for changes in parameters but given that these deviations are usually time sensitive and driven by stressed market conditions, the Clearing House will need the ability to act quickly to ensure market stability. Thus, for these situations the governance process will involve Board notification rather than Board pre-approval and Risk Oversight Department review rather than full independent pre-validation. The Model Oversight Committee will be responsible for establishing and maintaining a model inventory and assigning a specific owner to each model (a function currently performed by the First Line). The Model Oversight Committee will also be responsible for approving non-significant non-BAU changes to risk parameters and for reviewing significant non-BAU changes to risk parameters for recommendation to the Board. In addition, the committee will be responsible for approving changes to model documentation.

The First Line responsibilities will also be modified by the amendments. As noted above, the First Line will no longer be responsible for establishing and maintaining a model inventory and assigning a specific owner to each model as that responsibility will be moved to the Model Oversight Committee. The First Line will be responsible for proposing and seeking approval for non-BAU changes to risk parameters (as it currently does for models, model changes, and model retirements). Similarly, the First Line will also be responsible for proposing significance levels for non-BAU changes to risk parameters. The Second Line will be responsible for performing independent validation exercises for non-BAU changes to risk parameters (as it currently does for models).

Finally, a new sub-section will be added addressing Non-BAU parameter changes. The section will provide that significant non-BAU changes to risk parameters must be

validated before they are implemented in production. Non-significant non-BAU changes must be validated in accordance with the validation pipeline.

A number of other drafting clarifications and conforming changes replacing the references to “Framework” with “Policy” will also be made throughout the document.

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

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

- *Risk Management.* As stated above, the amendments to the Model Risk Policy are designed to facilitate the risk management and governance of risk frameworks in a similar manner to that for models under the existing Policy. The processes, controls and escalations currently used by the Clearing House with respect to the testing and reviewing of models, as well the responsibilities of the Clearing House’s committees, management and the Board in relation to the models, will be applied to risk frameworks. Furthermore, the amendments to the Policy will better distinguish between BAU and non-BAU changes (which are subject to additional review and governance requirements). The expanded scope of the Policy will, in ICE Clear Europe’s view, assist the Clearing House in the ongoing review and oversight of the models and risk frameworks it uses in the operation of the Clearing House, and the management of the risks that may arise from the use of such models and frameworks. (ICE Clear Europe further notes that the amendments do not otherwise change ICE Clear Europe’s model validation cycles.) The amendments thus enhance the Clearing House’s overall risk management, consistent with the requirements of Core Principle D and CFTC Rule 39.13.
- *Governance.* As discussed, the amendments to the Policy would extend the existing responsibilities of the Clearing House’s committees, management and the Board with respect to models to also apply to risk frameworks. The amendments would also clarify certain responsibilities of the Board and other relevant committees and personnel as they relate to BAU and Non-BAU changes to risk parameters. In ICE Clear Europe’s view, the amendments are therefore consistent with the requirements of Core Principle O and CFTC Rule 39.24.

As set forth herein, the amendments consist of the amendments to the Model Risk Policy. 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 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](mailto: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