November 16, 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 – Futures and Options Risk 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, an updated Futures and Options Risk Policy (the "Policy"). The Policy will replace the existing Futures and Options Risk Policy in its entirety, and will also replace the existing Futures and Options Guaranty Fund Policy and Futures and Options Stress Testing Policy, which are being retired. [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 adopting an updated Futures and Options Risk Policy, which will, among other matters, incorporate relevant discussions of the F&O Guaranty Fund and F&O stress testing policies, and improve clarity and consistency of descriptions of relevant risk policies. The amendments generally will not result in a change in Clearing House requirements relating to F&O risk management, as the content of the Policy remains appropriate and reflective of ICEU's practices. In connection with the adoption

[1] Capitalized terms used but not defined herein have the meanings specified in the Policy or, if not defined therein, the ICE Clear Europe Clearing Rules.

of the new Policy, ICE Clear Europe will also retire its existing Futures and Options Guaranty Fund Policy and the Futures and Options Stress Testing Policy, the substance of which is now subsumed in the Policy.

The Policy includes a summary of the overall purpose and scope of the Policy, as establishing requirements for the management of contingent market risk as aligned to the Board risk appetite. The Policy will also establish the minimum risk standards as it relates to the level of financial resources for the Futures and Options ("F&O") clearing business, including Variation Margin, Initial Margin, additional Margin, Guaranty Fund, and Skin-in-the-Game. The revised Policy also includes a statement of ICE Clear Europe's existing three lines of defense model for managing risk.

The Policy summarizes the overall requirements for Variation Margin used to manage the current mark-to-market loss in the Clearing Member portfolios, including the process for calculation of end-of-day mark-to-market value for proprietary and client accounts, as well as intraday monitoring of exposure. The Policy also reflects that Variation Margin must be based on reliable and readily available pricing data, and if not reliable or readily available, the systems or models used to derive prices must be from approved sources and documented accordingly.

The Policy also summarizes the overall requirements for Initial Margin, including initial margin calibration. The Policy reflects current practice that Initial Margin must be calibrated to a confidence interval of at least 99 percent in normal market conditions, and must be based on data capturing historical volatilities of prices and implied volatilities for options based on representative data covering at least the previous 12 months (or 250 business days) and including historical volatilities covering periods of stress. The Initial Margin must also capture basis risk. The Policy will also list the cumulative conditions for allowing offsets or reduction in margin requirement based on correlations between different instruments.

The Policy addresses the applicable Margin Period of Risk for the Initial Margin calculation, which may be 1 day or 2 days depending on the product and account class.

The Policy also reflects the measures used to limit the procyclicality of Initial Margin, specifically that the Clearing House must include at least one of the following: a buffer of at least equal to 25 percent of the calculated margins, at least a 25 percent weight to stressed observations in the parametrization of the margin rate, or margin requirements that are not lower than those that would be calculated using volatility estimated over a 10-year historical lookback period.

The Policy also describes ICE Clear Europe's practices with respect to Initial Margin Back Testing with respect to products and Clearing Member portfolios to assess margin coverage and with respect to spreads where Initial Margin requirements are based on spread margin rates.

The Policy outlines the use of additional margin requirements to mitigate the risks beyond those arising from market movements and covered by the base Initial Margin calculation. This would include requirements for Concentration Risk, Specific Wrong-Way Risk, additional Credit Risk, Delivery Risk, among other potential risks.

The Policy addresses the establishment of sensitivity tests and analysis to assess the margin model under a range of parameter values at least monthly, and more frequently depending on market conditions.

The Policy reflects the procedure for calculation and communication of margin requirements at least once each business day, and the procedures for payment of margin under the existing Finance Procedures. The Policy also addresses intraday monitoring of exposure and establishment of intraday exposure limits at the individual account level and aggregated at the Clearing Member level for purposes of making intraday margin calls.

The Policy also includes a section on the Guaranty Fund requirements, incorporating the substance of the current F&O Guaranty Fund Policy (which is being retired). The Policy summarizes the purpose and sizing of the Guaranty Fund, reflecting the existing requirements of the Rules and Finance Procedures. Specifically, the size of the Guaranty Fund must be sufficient to cover at least a default of the two Clearing Members groups to which the Clearing House has the largest exposures under extreme but plausible market conditions. Consistent with the Rules and Finance Procedure, the Guaranty Fund is apportioned to the Energy and Financials & Softs segments. The Policy also addresses the procedures for periodic review of the Guaranty Fund and required contribution levels for Clearing Members.

The Policy also outlines overall practices relating to stress testing and reverse stress testing of financial resources in light of Clearing Member portfolios. Stress testing is intended to ensure that financial resources are sufficient to cover losses that exceed margin requirements and to identify when the financial resources may provide insufficient coverage of credit exposures. The stress testing framework requires identifying extreme but plausible market conditions, based on both historical and theoretical scenarios. The stress test scenarios must include all asset classes and cleared contracts. The Policy also address annual review of the stress testing framework and the set of stress scenarios. The Policy describes the objectives of reverse stress testing, which is to identify market conditions (beyond those that are extreme and plausible) under which resources may provide insufficient coverage. Reverse stress testing must be performed at least quarterly, or more frequently depending on market condition.

The Policy also addresses the use of additional Stress Margin to cover the Clearing Members' uncollateralized stress losses beyond the CCP's prefunded resources, to ensure that the combination of Margin and Guaranty Fund requirements are sufficient to cover the default of at least the two Clearing Members with the largest exposures to the Clearing House under extreme but plausible market conditions. The Policy also states that procedures must be in place for triggering an extraordinary review of the Guaranty Fund size when Stress Margin is called.

The Policy also generally outlines the Clearing House's own contribution to default resources (Skin-in-the-Game) and the waterfall of use of default resources provided for in the Rules.

The Policy sets out certain requirements where the production margin requirements deviate from the model-driven requirements, including procedures for updating production Initial Margin requirements within a defined period if the model-driven requirement exceeds the production level by more than a specified threshold. The Policy also addresses governance requirements for margin deviations. Non-significant deviations must be approved by the Model Oversight Committee and significant deviations will require additional Board notification.

Finally, the Policy describes procedures for ongoing periodic review of the Policy, breach management, exception handling and document governance, in a manner generally consistent with other ICE Clear Europe policies. The Policy identifies relevant personnel responsible for ensuring that the Policy remains up-to-date and reviewed in accordance with the Clearing House's governance processes. Document reviews will encompass at the minimum regulatory compliance, documentation and purpose, implementation, use and open items from previous validations or reviews. Results of the review will have to be reported to the Executive Risk Committee along with the priority of findings, proposed remediations and target due date to remediate the findings. Any changes to the Policy will have to be reviewed by the Executive Risk Committee, followed by review by the Client Risk Committee to recommend for Board approval.

Compliance with the Act and CFTC Regulations

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

- *Financial Resources.* As discussed above, the amendments would update the overall descriptions of the Clearing House's practices relating to Variation and Initial margin requirements. The amended Policy also incorporates Guaranty Fund sizing (including the process for reviewing and adjusting the size of the F&O Guaranty Fund). The amendments are not intended to result in changes in those practices or in Margin or Guaranty fund levels, but are intended to improve document clarity. As such, the amendments are consistent with the Clearing House's maintaining of sufficient financial resources to cover its exposures with a high degree of confidence. Therefore, in ICE Clear Europe's view the amendments satisfy the requirements of Core Principle B and Commission Rule 39.11.

- *Risk Management.* As stated above, the Policy outlines the minimum risk standards that the Board expects to be met in relation to the level of financial resources required for the F&O clearing business to protect against potential losses. Furthermore, the Policy outlines the methodology for collecting Initial and Variation, and various types of additional Margin, in order to adequately protect the Clearing House against a variety of possible risks. The Policy also outlines overall practices relating to stress testing and reverse stress testing to ensure ICE Clear Europe can sufficiently cover losses in extreme but plausible market conditions. The amendments thus enhance the Clearing House's overall risk management, consistent with the requirements of Core Principle D and Commission Rule 39.13.

- *Governance.* The Policy identifies responsibilities of the Board and relevant committees and personnel in relation to oversight of the Clearing House's management of default risk. The Policy also provides for annual review to ensure that it remains up-to-date and is reviewed in accordance with the Clearing House's internal governance processes. ICE Clear Europe believes that the amendments are therefore consistent with the governance requirements of Core Principle O and Commission Rule 39.24.

As set forth herein, the amendments consist of the adoption of the new Futures and Options Risk Policy and the retirement of the existing Futures and Options Guaranty Fund Policy and Futures and Options Stress Testing Policy. ICE Clear Europe has requested confidential treatment with respect to the new 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 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 or +44 20 7429 4564.

Very truly yours,

George Milton
Head of Regulation & Compliance