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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-89621; File No. SR-ICEEU-2020-008]

### **Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Amendments to the ICE Clear Europe Futures and Options Stress Testing Policy and the adoption of the Futures and Options Stress Testing Methodology Document**

August 20, 2020.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 6, 2020, ICE Clear Europe Limited (“ICE Clear Europe” or the “Clearing House”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule changes described in Items I, II and III below, which Items have been prepared by ICE Clear Europe. ICE Clear Europe filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act,<sup>3</sup> and Rule 19b-4(f)(4)(ii) thereunder,<sup>4</sup> so that the proposal was immediately effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### **I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change**

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(4)(ii).

The principal purpose of the proposed amendments is for ICE Clear Europe to modify its Futures and Options Stress Testing Policy (the “F&O Stress Testing Policy” or “Policy”) to update its F&O market stress scenarios to ensure all relevant products are covered and to make certain other updates and clarifications to be consistent with other ICE Clear Europe policies. In furtherance of these changes, ICE Clear Europe also proposes to adopt a Futures and Options Stress Testing Methodology Document (“F&O Stress Testing Methodology Document”) which describes ICE Clear Europe’s methodology for systematically applying the F&O Stress Testing Policy in situations where the required historical price data is not available. The revisions to the F&O Stress Testing Policy and the adoption of the F&O Stress Testing Methodology Document do not involve any changes to the ICE Clear Europe Clearing Rules or Procedures.<sup>5</sup>

**II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, ICE Clear Europe included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. ICE Clear Europe has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

**(A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

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<sup>5</sup> Capitalized terms used but not defined herein have the meanings specified in the ICE Clear Europe Clearing Rules.

ICE Clear Europe is proposing to amend its F&O Stress Testing Policy as follows: (i) with respect to historical stress-testing scenarios, to update the methodology to include additional product groups, benchmark contracts and default shock values, in order to ensure that every cleared instrument is covered in the historical scenarios; (ii) with respect to theoretical stress-testing scenarios, to improve scenario implementations to ensure appropriate coverage of all relevant instruments; (iii) to update provisions relating to policy reviews and breach management; and (iv) to make various drafting clarifications and improvements. ICE Clear Europe is also proposing to adopt an F&O Stress Testing Methodology Document which would provide further detail with respect to the methodology applied to the stress-testing scenarios, particularly the historical stress-testing scenarios.

#### I. F&O Stress Testing Policy

##### General Drafting Clarifications and Improvements

By way of general drafting clarification and improvements, the amendments to the F&O Stress Testing Policy would remove the background description of the board risk appetite and the limit appetite as these are addressed in other ICE Clear Europe documentation. Certain terminology would be updated throughout the F&O Stress Testing Policy: Original Margin would be updated to Initial Margin. Reference to the F&O Risk Committee would be updated to the F&O Product Risk Committee. Product Groups would be referred to as Stress Groups. References to certain specific EMIR standards and provisions would be removed and the appendices relating to the existing stress testing methodology would be removed (as relevant detail would be instead contained in the F&O Stress Testing Methodology Document).

## Stress Testing and Guaranty Fund

The overall description of the method of testing the size of the Guaranty Fund would be simplified and clarified to state that stress tests are designed to cover the worst price moves over the last 30 years (historical scenarios) and extreme, but as yet unobserved price moves based on potential future events or market moves to a confidence level of 99.9% (theoretical scenarios). A clarification would be added that historical scenarios that are more than 30 years old can only be decommissioned following the standard governance provisions for removal of any scenario. The description of the utilization of the Guaranty Fund would be removed as unnecessary for purposes of this policy. In addition, a diagram illustrating the existing stress testing methodology would be deleted as unnecessary.

The calculation principles relating to stress testing would be amended as described below. Amendments would clarify that historical stress shocks would be calibrated using the official settlement prices history from ICE as well as external market sources. If such market data does not exist, then ICE Clear Europe would calculate shocks using the waterfall proxy methodology which is described in the F&O Stress Testing Methodology Document. The amendments would delete the statement that option pricing model calculations would assume theta decay over the holding period (as unnecessarily specific for purposes of the Policy).

The amendments would further clarify that stress scenarios would use risk factor moves over stress periods of risk (“SPOR”) that take into account the time horizon for the relevant liquidation period (rather than a one or two day period under the current policy). The F&O Stress Testing Policy would note that where risk factor moves across periods

shorter than the liquidation period time horizon are more extreme due to market reversion, it may be more conservative and appropriate to apply a shorter SPOR. With respect to historical data, the amendments would provide that where a risk factor does not have an internal or external data, ICE Clear Europe would rely on proxy mappings (which may vary depending on the scenario) to calibrate the stress shocks for instruments where historical data is not available or reliable. Such proxy mappings are proposed by the Clearing House's Credit Risk Department and require approval from the Clearing House's Model Oversight Committee. The proxy mappings would be addressed in further detail in the F&O Stress Testing Methodology Document. The amendments would also supplement the table of risk factors to address certain limitations of expiry-specific scenarios.

With respect to Stress Groups (formerly referred to as Product Groups), the criteria for choosing such groups and their constituents would be expanded to include the fundamental relationships between products.

### Stress Scenarios

Pursuant to the proposed amendments, the definition of the two broad categories of historical scenarios would be clarified: (i) Historical Type A, which would replicate as accurately as possible the historical event; and (ii) Historical Type B which would reflect the intention of the historical stress events, but adjust the market movements either to make them plausible under current market conditions, better capture the stress period moves across different asset classes, or more appropriately reflect the existing risk factor exposures of the Clearing House. The description of historical stress scenarios would be amended to move certain additional scenarios regarding the energy segment and certain

assumptions used to examine potential losses from significant changes in correlation relationships from the Policy to the F&O Stress Testing Methodology Document. The amended Policy would also remove certain general discussions of the use of proxies for particular markets, such as single stock equity futures products; proxy methodology would instead be discussed in the F&O Stress Testing Methodology Document.

With respect to theoretical scenarios, ICE Clear Europe proposes to clarify that scenario implementations include a variety of approaches to create extreme but plausible scenarios that are not contained within the set of historical scenarios and which may utilize expert judgement in their construction. Theoretical scenarios may also include narrative-driven macro or idiosyncratic scenarios driven by broad macroeconomic or specific technical events. Regulatory-driven scenarios from prior supervisory stress testing exercises can also be included. The revised policy would remove a further definition of some theoretical scenarios as “hypothetical” (such that all scenarios would be categorized as either historical or theoretical). The amendments would provide that theoretical scenarios can be targeted and only shock certain instruments relevant to the design of the scenario (rather than all contracts).

The provisions related to reverse stress testing would be revised to remove statements that reverse stress scenarios are generated on a daily basis and that the Clearing House runs daily reverse stress test reports. Under the revised Policy, reverse stress testing results would be presented to the F&O Product Risk Committee every other month, rather than monthly. ICE Clear Europe nonetheless believes the revised approach provides for sufficient reverse stress testing and internal review of the results of such testing, consistent with relevant regulatory requirements.

The amendments would add a new section stating that the uncollateralized stress-testing losses would be compared to the segment of the Guaranty Fund that is relevant to that particular stress scenario. A scenario can be defined against the whole F&O Guaranty Fund or a particular segment (e.g., energy or financials and softs).

### Governance

ICE Clear Europe is also proposing to amend the F&O Stress Testing Policy to reflect changes to the Clearing House's document governance and exception handling, specifically to provide that (i) the document owner is responsible for ensuring that documents remain up-to-date and are reviewed in accordance with the Clearing House's governance processes, (ii) the document owner (as maintained in other relevant ICE Clear Europe internal policies) will report material breaches or unapproved deviations from the F&O Stress Testing Policy to their Head of Department, the Chief Risk Officer and the Head of Compliance (or their delegates) who will determine if further escalation will be made, and (iii) exceptions to the F&O Stress Testing Policy would be approved in accordance with the Clearing House's governance process for the approval of changes to such document.

### II. F&O Stress Testing Methodology Document

ICE Clear Europe is proposing to adopt the F&O Stress Testing Methodology Document in order to comprehensively describe ICE Clear Europe's methodology for applying the F&O Stress Testing Policy in situations where the required historical price data is not available, typically because the products that exist currently did not exist on those historical dates and therefore do not have historical price data for those dates. This approach will permit the extension of historical stress testing scenarios to all products.

The F&O Stress Testing Methodology Document would provide an overview of the stress testing approach, consistent with the F&O Stress Testing Policy, and include descriptions of the historical and theoretical stress scenarios. The methodology document would provide that ICE Clear Europe ensures product coverage for historical scenarios under the following approach:

(i) where input returns for a futures product or implied volatility for an options product are not available in a scenario, by using the same stress shock as the proxy benchmark such scenario has been mapped to;

(ii) where the proxy benchmark does not have an input return in a scenario, by using the input return from that benchmark's proxy benchmark and such proxy process is repeated through the proxy waterfall until a benchmark with an input return is found;

(iii) if, at the end of the proxy waterfall, the benchmark has no input returns to use, by using a default value for the return which is derived from the long term expected value of historical returns of the benchmark product (this default value would then be used for all products that ultimately proxy to that benchmark in that scenario); and

(iv) where a default value is used in a historical scenario, running two variants of such scenario, one in which all the default prices are assumed to move up and the other all down, and in both, ICE Clear Europe would assume the default values of option volatility to move up given the lack of correlations between the stress groups. Default values would be recalibrated on at least an annual basis.

The F&O Stress Testing Methodology Document would describe in further detail the proxy waterfall methodology referenced in the F&O Stress Testing Policy. The methodology would describe the techniques used to create price and volatility shocks for historical scenarios in situations where there is no reliable data for that price or volatility shock in the relevant historical period. The waterfall would be based on a series of proxy relationships based on proximity to the relevant products. For any product that does not have historical data required to define its shock under the given base scenario, the relevant proxy would be used instead. Should that proxy not have data, the proxy's proxy would be used, in recursive fashion, until reaching the terminal benchmarks. If there is no data available for the terminal benchmarks, a default value shock would be used. The methodology document would set out calculation of the risk returns used to stress test particular instruments, based on the SPOR, the relevant maturity and a series of price data. The document also sets out the default value calculation and explains the application of the shock for all products under each scenario using the proxy waterfall.

The F&O Stress Testing Methodology Document would identify certain assumptions and limitations that ICE Clear Europe has identified with respect to the proxy waterfall mechanism and default values.

The F&O Stress Methodology Document would also describe the governance and oversight responsibilities relating to the Policy and stress scenarios of each of the Board, the Client Risk Committee and the Model Oversight Committee. All changes to the Policy and the overall framework and methodology are subject to the approval of the Board, as are significant changes to the design, scope or definition of scenarios and the decommissioning of scenarios. The methodology document also addresses procedures

for periodic “business as usual” recalibration of parameters for existing scenarios, and further provides that scenario recalibration will be done quarterly rather than semi-annually, but that default shocks which are predicated on average value over the long history would be subject to less frequent calibration

Finally, the appendices to the F&O Stress Testing Methodology Document would include: (i) a list of the sources of data that ICE Clear Europe inputs into the stress testing methodology; (ii) a list of the Stress Groups used in the Policy and the methodology document; (iii) a list of the terminal benchmark products applied at the end of the proxy waterfall; (iv) the detailed proxy waterfall algorithm; and (v) a worked example of the Clearing House’s historical scenario coverage process.

ICE Clear Europe has evaluated the overall impact of the amended Policy and new framework documentation on its financial resources. ICE Clear Europe does not believe that the amendments would have a material impact on its total pre-funded resources or Guaranty Fund size. On average, ICE Clear Europe expects a non-material decrease in total pre-funded resources, largely due to the expanded product coverage covering certain risk reducing trades that may not have been covered previously. On average, ICE Clear Europe expects that a small number of F&O Clearing Members may experience an increase in their Guaranty Fund requirements; although most would see a non-material decrease in requirements, on average.

(b) Statutory Basis

ICE Clear Europe believes that the proposed amendments to the F&O Stress Testing Policy and the adoption of the F&O Stress Testing Methodology Document are

consistent with the requirements of Section 17A of the Act<sup>6</sup> and the regulations thereunder applicable to it. In particular, Section 17A(b)(3)(F) of the Act<sup>7</sup> requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, the safeguarding of securities and funds in the custody or control of the clearing agency or for which it is responsible, and the protection of investors and the public interest.

The proposed changes to the F&O Stress Testing Policy and the adoption of the F&O Stress Testing Methodology Document are designed to strengthen the ICE Clear Europe's stress testing methodology by updating the market stress scenarios to ensure that all of the relevant products are covered in each stress scenario. Specifically, the amendments would (i) update the stress shock calibration to include additional product groups for historical scenarios, (ii) improve scenario implementations for theoretical scenarios and (iii) systematically set out ICE Clear Europe's methodology for applying historical stress testing in situations where historical price data is not available. The clarification and other changes to the F&O Stress Testing Policy also enhance readability and ensure that the F&O Stress Testing Policy remains clear and up-to-date. ICE Clear Europe believes that the Policy as so amended and the adoption of the F&O Stress Testing Methodology Document will help ICE Clear Europe ensure that it maintains adequate financial resources to support its F&O clearing operations, enhance the stability

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<sup>6</sup> 15 U.S.C. 78q-1.

<sup>7</sup> 15 U.S.C. 78q-1(b)(3)(F).

of the Clearing House and thereby promote the prompt and accurate clearance and settlement of securities transactions and, derivative agreements, contracts, and transactions, the safeguarding of securities and funds in ICE Clear Europe's custody or control or for which ICE Clear Europe is responsible, and the public interest in the sound operation of clearing agencies. Accordingly, the amendments satisfy the requirements of Section 17A(b)(3)(F).<sup>8</sup>

In addition, ICE Clear Europe believes that the proposed revisions to the F&O Stress Testing Policy and the adoption of the F&O Stress Testing Methodology Document are consistent with the relevant requirements of Rule 17Ad-22.<sup>9</sup> Rule 17Ad-22(e)(4)(vi)<sup>10</sup> requires ICE Clear Europe to identify, measure, monitor and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by testing the sufficiency of its total financial resources available to meet the minimum financial resource requirements, including by conducting a comprehensive analysis of stress testing scenarios, models and underlying parameters and assumptions. The proposed changes to ICE Clear Europe's stress testing methodology amend the market stress scenarios to ensure that all of the relevant products are covered in each stress scenario, through including additional product groups for historical scenarios and improving scenario implementations for theoretical scenarios. Although adjustments are not expected to have an immediate material impact on required

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<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>9</sup> 17 CFR § 240.17Ad-22.

<sup>10</sup> 17 CFR § 240.17Ad-22(e)(4)(vi).

financial resources, ICE Clear Europe believes that the amendments will better calibrate its financial resource requirements to the particular risks of cleared positions and better adapt to evolving market conditions. The proposed revisions also improve the Clearing House's stress testing framework by providing a backup methodology for use of historical scenarios where market data is unavailable, increasing the coverage of its stress testing. Taken together the amendments further ensure that ICE Clearing House identifies, measures, monitors and manages its credit exposures, consistent with the requirements of Rule 17Ad-22(e)(4)(vi).<sup>11</sup>

Rule 17Ad-22(e)(3)(i)<sup>12</sup> requires clearing agencies to maintain a sound risk management framework that identifies, measures, monitors and manages the range of risks that it faces. The amendments to the F&O Stress Testing Policy and the adoption of the F&O Stress Testing Methodology Document are intended to better calibrate financial resources held by ICE Clear Europe to the risks faced by the Clearing House through improvements to the stress testing methodology. In ICE Clear Europe's view, the amendments are therefore consistent with the requirements of Rule 17Ad-22(e)(3)(i).<sup>13</sup>

Rule 17Ad-22(e)(2)<sup>14</sup> requires clearing agencies to establish reasonably designed policies and procedures to provide for governance arrangements that are clear and transparent and specify clear and direct lines of responsibility. The proposed

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<sup>11</sup> 17 CFR § 240.17Ad-22(e)(4)(vi).

<sup>12</sup> 17 CFR 240.17 Ad-22(e)(3)(i).

<sup>13</sup> 17 CFR 240.17 Ad-22(e)(3)(i).

<sup>14</sup> 17 CFR 240.17 Ad-22(e)(2).

amendments to the F&O Stress Testing Policy more clearly define the roles and responsibilities of the document owner, the Head of Department, the senior members of the Risk Oversight Department and the senior members of the Compliance Department. The proposed F&O Stress Testing Methodology Document describes the governance and oversight role of each of the Board, the Client Risk Committee and the Model Oversight Committee with respect to the F&O Stress Testing Policy and stress scenarios thereto. ICE Clear Europe believes that the amendments to the F&O Stress Testing Policy and the adoption of the F&O Stress Testing Methodology Document are therefore consistent with the requirements of Rule 17Ad-22(e)(2).<sup>15</sup>

(B) Clearing Agency's Statement on Burden on Competition

ICE Clear Europe does not believe the proposed amendments would have any impact, or impose any burden, on competition not necessary or appropriate in furtherance of the purposes of the Act. The amendments are being adopted to further strengthen ICE Clear Europe F&O stress testing methodology and would apply to all F&O Clearing Members. The proposed amendments are not expected to materially change F&O Guaranty Fund Contribution requirements for F&O Clearing Members (on average, it is expected that most Clearing Members would see a non-material decrease in requirements; while a few Clearing Members may see a non-material increase). Although the change could thus modestly increase the costs of clearing for certain Clearing Members, ICE Clear Europe believes any such additional cost is appropriately tailored to the risks relating to the products being cleared by those Clearing Members, as

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<sup>15</sup> 17 CFR 240.17 Ad-22(e)(2).

illustrated through the revised stress testing policy. ICE Clear Europe does not otherwise believe the amendments would affect the costs of clearing, the ability to market participants to access clearing, or the market for clearing services generally. Therefore, ICE Clear Europe does not believe the proposed rule change imposes any burden on competition that is inappropriate in furtherance of the purposes of the Act.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments relating to the proposed amendments have not been solicited or received by ICE Clear Europe. ICE Clear Europe will notify the Commission of any written comments received with respect to the proposed rule change.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>16</sup> and paragraph (f) of Rule 19b-4<sup>17</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>17</sup> 17 CFR 240.19b-4(f).

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>) or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-ICEEU-2020-008 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ICEEU-2020-008. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 am and

3:00 pm. Copies of such filings will also be available for inspection and copying at the principal office of ICE Clear Europe and on ICE Clear Europe's website at <https://www.theice.com/notices/Notices.shtml?regulatoryFilings>. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ICEEU-2020-008 and should be submitted on or before **[INSERT DATE 21 DAYS FROM PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>18</sup>

**J. Matthew DeLesDernier,**

*Assistant Secretary.*

[FR Doc. 2020-18684 Filed: 8/25/2020 8:45 am; Publication Date: 8/26/2020]

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<sup>18</sup> 17 CFR 200.30-3(a)(12).