



20 October, 2021

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 40.6 –
LIBOR Transition Rules

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 amendments to the ICE Clear Europe Clearing Rules (the “Rules”) to add a new Part 24 to the Rules which would set out certain procedures relating to LIBOR transition for affected interest rate futures and option contracts cleared by the Clearing House (such as Part 24, the “LIBOR Transition Rules”).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 the LIBOR Transition Rules in advance of the expected transition of Sterling and Swiss Franc LIBOR rates, which are currently referenced in certain ICE Futures Europe interest rate futures and option contracts cleared by the Clearing House, to other replacement rates. As has been widely publicized, the UK Financial Conduct Authority (the “FCA”) in July 2017 announced that it would no longer compel LIBOR panel banks to make LIBOR submissions after December 31,

¹ Capitalized terms used but not defined herein have the meanings specified in the Rules.

2021. Since July 2017, the FCA, other regulators in various jurisdictions, industry groups and market participants have worked to develop and adopt various risk-free rates as alternatives to LIBOR, including the Sterling Over Night Index Average, or “SONIA,” for Sterling, and the Swiss Average Rate Overnight, or “SARON,” for Swiss Francs. In the derivative markets, industry groups and market participants have generally concluded that LIBOR-based contracts should be converted into contracts referencing a new risk-free rate, with a fallback spread adjustment reflecting the deemed difference in value between the relevant LIBOR rate and the replacement risk free rate. On March 5, 2021, following further consultations, the FCA announced the cessation dates for all LIBOR panels, which will be December 31, 2021 for the Sterling and Swiss Franc LIBORs underlying the relevant ICE Futures Europe interest rate futures and options. In the wake of that announcement, industry groups have established the fallback spreads expected to be used for transitioning derivatives contracts referencing such rates, which have been widely disseminated.² In light of these developments, the Clearing House has determined to transition the Three Month Sterling LIBOR Contracts, Three Month EuroSwiss Contracts and Options on Three Month Sterling LIBOR Contracts to replacement rates ahead of the cessation dates for the Sterling and Swiss Franc LIBOR panels.

ICE Futures Europe has already launched trading of new futures and option contracts referencing SONIA and SARON, which are already cleared by ICE Clear Europe. Market participants may currently trade in such contracts alongside contracts referencing LIBOR. Accordingly, it is possible for market participants, on a voluntary basis, to close out of positions in LIBOR-referencing contracts and enter into new positions in SONIA- or SARON-referencing contracts through market transactions under ICE Futures Europe rules. ICE Clear Europe is adopting new Part 24 of the Rules, which provides for the mandatory conversion or (in certain circumstances) cash settlement of any remaining LIBOR-referencing contracts that have not been voluntarily closed out as of a specified date in advance of the cessation of LIBOR publication of the Sterling and Swiss Franc LIBOR panels, as discussed in further detail herein.

Specifically, the amendments provide, upon a defined LIBOR Transition Time to be determined and communicated by Circular by the Clearing House, for (i) the amendment and restatement of Transitioning Three Month Sterling LIBOR Contracts into three-month SONIA contracts, (ii) the amendment and restatement of Transitioning Three Month EuroSwiss Contracts into three-month SARON contracts, and (iii) the amendment and restatement of options on Transitioning Three Month Sterling LIBOR Contracts into options on three-month SONIA contracts.

LIBOR Transition Rules

Rule 2401 provides an introduction to the LIBOR Transition Rules and a general description of the LIBOR Transition Rules and their purpose. The introduction clarifies that the LIBOR Transition Rules prevail in the event of any conflict with the remainder

² See Bloomberg, IBOR Fallbacks (5 March 2021), available at https://assets.bbhub.io/professional/sites/10/IBOR-Fallbacks-LIBOR-Cessation_Announcement_20210305.pdf.

of the ICE Clear Europe Clearing Rules on matters to which the LIBOR Transition Rules relate.

Rule 2402 provides the key additional definitions used in the LIBOR Transition Rules, including “LIBOR Settlement Time” and “LIBOR Transition Time,” “Transitioning Three Month Sterling Contracts,” “Transitioning Three Month Euro Swiss Contracts,” “SONIA Contracts,” “SARON Contracts”, as discussed in further detail below.

Rule 2403 provides that nothing in the LIBOR Transition Rules prevents or restrict ICE Futures Europe or the Clearing House from clarifying or providing guidance on the application of the LIBOR Transition Rules or any related Circular.

LIBOR Settlement Time and LIBOR Transition Time

As set out in Rule 2403, the Clearing House will designate and communicate by Circular a LIBOR Settlement Time and LIBOR Transition Time for purposes of the settlement and transition of the Three Month Sterling LIBOR Contracts, Three Month EuroSwiss Contracts and Options on Three Month Sterling LIBOR Contracts. The LIBOR Settlement Time will be the time as of which the final pre-transition end-of-day settlement will be calculated (as discussed below in connection with Rule 2404) and will also be used to determine the contracts subject to transition. Pursuant to Rule 2403(b), contracts that are still open at the LIBOR Settlement Time but which are scheduled to expire on a later date will be transitioned under the LIBOR Transition Rules; those contracts that expire before the LIBOR Settlement Time will not be subject to the LIBOR Transition Rules, since they will already have settled in accordance with their existing terms. This wording also excludes from the LIBOR Transition any LIBOR Contracts that have been the subject of a voluntary close out.

The LIBOR Transition Time will be the time as of which the amendment and restatement of remaining transitioning contracts into SONIA Contracts, SARON Contracts or Options on SONIA Contracts will occur. It is expected that the LIBOR Transition Time and the LIBOR Settlement Time will both occur after the market has closed on a business day and prior to market opening the next business day. The Clearing House is entitled to delay either such time (or to unwind the LIBOR Transition) at any time prior to the regular Margin call on the Business Day following the scheduled LIBOR Transition Time. Any such delays will be communicated to Clearing Members by Circular.

Pursuant to Rule 2403(c), Options referencing Three Month Sterling LIBOR Contracts that expire prior to the LIBOR Settlement Time will expire and be exercised or abandoned and settle in the ordinary way, without being affected by the LIBOR Transition Rules. However, where such Contracts will be exercised prior to the LIBOR Settlement Time into Three Month Sterling LIBOR Contracts that expire after the LIBOR Settlement Time, transition will occur under the LIBOR Transition Rules for the resulting Three Month Sterling LIBOR Contracts.

LIBOR Transition Settlement Prices

Rule 2404 describes the procedure for determining and using LIBOR Transition Settlement Prices. Following the LIBOR Settlement Time, the LIBOR Transition Settlement Prices will be used for calculating the regular end of day Margin call in

respect of any Set of Three Month Sterling LIBOR Contracts, Three Month EuroSwiss Contracts or Options on the Three Month Sterling LIBOR Contracts.

Rule 2404 describes the manner in which the LIBOR Transition Settlement Prices will be determined for each Set of Three Month Sterling LIBOR Contracts, each Set of Three Month EuroSwiss Contracts, and each Option on the Three Month Sterling LIBOR Contracts of a particular Set. For the transitioning futures contracts, the LIBOR Transition Settlement Price will be the applicable daily settlement price for the corresponding SONIA or SARON contract, minus the applicable fallback spread. For the transitioning option contracts, the transition settlement price will be the settlement price of the corresponding SONIA option contract for the same delivery month and with a flex strike price equal to the strike price for the transitioning LIBOR contract plus the applicable fallback spread.

In addition, in relation to Options on the Three Month Sterling LIBOR Contracts for which the corresponding Option on the SONIA Contracts has a different expiry date, Rule 2404(c) provides that the Clearing House will direct that a one-off irreversible payment be paid to the Clearing Member by the Clearing House or *vice versa* in order to address the change in value resulting from the change in expiry date.³ The amount of such payment will be calculated as at the LIBOR Settlement Time by the Clearing House and included within the next regular Margin call or payment following the LIBOR Transition Time, unless otherwise directed by the Clearing House. Rule 2404 includes an acknowledgment that the methodology for calculating the LIBOR Transition Settlement Prices (including the Three Month Sterling LIBOR Spread and Three Month Swiss Franc LIBOR Spread) and the use of such prices as the Exchange Delivery Settlement Price are matters of which the market as a whole has had sufficient notice (in light of the extensive market consultation and discussion around LIBOR transition issues, including with respect to and in light of the fact that the fallback spread methodology and calculation has been the subject of extensive market consultation and discussion).

Amendment and Restatement of Transition Three Month Sterling LIBOR Contracts

Rule 2405 describes the process for the amendment and restatement of Transitioning Three Month Sterling LIBOR Contracts into SONIA Contracts. Because two lots of a Sterling LIBOR Contract will convert into a single lot of a SONIA contract in order to deal with differences in the sizes of lots under such contracts, Rule 2405(a) provides for rounding down of odd numbers of lots in the conversion to the nearest even number of lots, with the remaining portion to be excluded from the transition and terminated with cash settlement in accordance with the Rule. A similar process to exclude, terminate and cash settle transactions in lieu of transition will be used as necessary to balance the number of buy and sell positions in transitioning contracts following the rounding of odd lots as described above.

Rule 2405(b) provides that, at the LIBOR Transition Time, in respect of each Account of each Clearing Member, every two lots of a Set of Transitioning Three Month Sterling

³ The Clearing House may direct such a payment under its existing powers pursuant to Rule 109(k) when changes to the contract terms "materially affects" the Exchange Delivery Settlement Price, as is considered to be the case in respect of this element of the LIBOR Transition Rules.

LIBOR Contracts (which are not otherwise excluded from the Sterling LIBOR Transition and terminated and cash settled as discussed above) will be amended and restated as a single lot of a SONIA Contract with an identical delivery month. Such SONIA Contracts will be treated as being of the same Set as any other SONIA Contracts of the same delivery month held by the Clearing Member at the Transition Time, and if they are in the same Account may be subject to netting pursuant to Rule 406, thereby creating fungibility between all SONIA Contracts, whether resulting from prior trading or from the LIBOR Transition. The Rule also clarifies that such SONIA Contracts will remain ICE Futures Europe Contracts to bolster this outcome. Finally, open Contract Positions in respect of any Set of Transitioning Three Month Sterling LIBOR Contracts that will be excluded from the Sterling LIBOR Transition pursuant to Rule 2405(a) (as described above) will be terminated and cash settled at the relevant LIBOR Transition Futures Settlement Price announced by the Clearing House pursuant to Rule 2404(b)(i).

Rule 2405(c) states that the Clearing House will not provide for any one-off payment in respect of the amendment and restatement of Transitioning Three Month Sterling LIBOR Contracts contemplated by these LIBOR Transition Rules. The Rule includes an acknowledgment that the proposed transition arrangements are matters of which the market as a whole has had sufficient notice, in light of the extensive market consultation and discussion around LIBOR transition issues, including with respect to the fallback spread methodology and calculation, and in light of the ability of market participants to voluntarily close out of positions prior to the LIBOR Transition Time.

Rule 2405(d) also clarifies certain matters that apply in respect of Transitioning Three Month Sterling LIBOR Contracts following the LIBOR Transition Time. After such time, the Clearing House will be able to apply contractual netting of offsetting SONIA Contracts of the same Set that are recorded in the same Account in accordance with the ordinary Rules applicable to netting. The Rule also provides that there may be additional *ad hoc* or regular Margin payments or calls including related to the amendment and restatement of Transitioning Three Month Sterling LIBOR Contracts subject to Sterling LIBOR Transition as SONIA Contracts or any consequent netting and increase or decrease in Open Contract Positions or changes in valuations. The Clearing House also reserves the right to correct or amend an Exchange Delivery Settlement Price under Part 7 of the Rules.

Amendment and Restatement of Transitioning Three Month EuroSwiss Contracts

Rule 2406 provides substantially similar procedures for the amendment and restatement of Transitioning Three Month EuroSwiss Contracts into SARON Contracts (with the exception that each single lot of a Transitioning Three Month EuroSwiss Contract will become a single lot of the corresponding SARON Contract, and accordingly no rounding or similar adjustment to open positions or payments in respect of odd lots or unbalanced positions which are excluded from the LIBOR Transition will be required).

Amendment and Restatement of Options on Transitioning Three Month Sterling LIBOR Contracts

Rule 2407 sets out the process for the amendment and restatement of Options on Transitioning Three Month Sterling LIBOR Contracts. As with the underlying Three Month Sterling Contract, in the transition, two lots of Options on Transitioning Three month Sterling LIBOR Contracts will be converted into a single lot of SONIA Options.

As a result, Rule 2407(a) sets out a procedure for rounding odd numbered positions and balancing the remaining buy and sell positions (with termination and cash settlement for any positions excluded from the transition), similar to the procedure in Rule 2405(a) as discussed above.

Rule 2407(b) sets out the transition arrangements for Options on Transitioning Three Month Sterling LIBOR Contracts at the LIBOR Transition Time. Specifically, in respect of each Account of each Clearing Member, every two lots of Options on any Transitioning Three Month Sterling LIBOR Contract (which are not excluded from the Sterling LIBOR Transition as described above) will be amended and restated as a single lot of an Option on a SONIA Contract where the relevant Three Month Sterling LIBOR Contract and SONIA Contract have an identical delivery month. This amendment and restatement will result in the adjustment of the expiry date of certain Options on Transitioning Three Month Sterling LIBOR Contracts to the Friday prior to the third Wednesday of the expiry month, consistent with the existing convention for SONIA Contracts. The Strike Price of each Option on a SONIA Contract arising under Rule 2407 will be amended and restated as the Strike Price for the Option on the Transitioning Three Month Sterling LIBOR Contract plus the Three Month Sterling LIBOR Spread. Rule 2407 clarifies that Options on SONIA Contracts arising under Rule 2407 will remain ICE Futures Europe Contracts. Any Open Contract Position in respect of any Set of Options on any Transitioning Three Month Sterling LIBOR Contracts that is excluded from the Sterling LIBOR Transition pursuant to Rule 2407 will be terminated and cash settled at the relevant LIBOR Transition Options Settlement Price previously published by the Clearing House pursuant to Rule 2404(b)(iii).

Rule 2407(c) provides that, other than the payment described above under Rule 2404(c), the Clearing House will not require any one-off payment in respect of the amendment and restatement of Options on any Transitioning Three Month Sterling LIBOR Contracts under Rule 2407. The Rule includes an acknowledgment, similar to those described above, that market participants have had sufficient notice of the transition terms.

Finally, Rule 2407(d) addresses certain matters that will apply following the LIBOR Transition Time. After such time, the Clearing House will be able to apply contractual netting of offsetting Options on SONIA Contracts of the same Set that are recorded in the same Account, in accordance with Rule 406(a). SONIA Contracts (i.e. SONIA Futures) that arise upon exercise of any Options converted under Rule 2407 will be treated as being of the same Set as any other SONIA Contracts of the same delivery month held by the Clearing Member at the LIBOR Transition Time, and if they are in the same Account may be subject to netting pursuant to Rule 406. The Clearing House clarifies that additional *ad hoc* or regular Margin payments or calls may be made, including related to the amendment and restatement of the Options on Transitioning Three Month Sterling LIBOR Contracts as Options on SONIA Contracts or any consequent netting and increase or decrease in Open Contract Positions or changes in valuations. The Clearing House also reserves its rights under Part 8 to correct or amend an Exchange Delivery Settlement Price under Part 8 of the Rules.

Compliance with the Act and CFTC Regulations

The amendments to the Delivery Procedures are potentially relevant to the following core principles: (C) Participant and Product Eligibility and (D) Risk Management and the applicable regulations of the Commission thereunder.

- *Participant and Product Eligibility.* As discussed herein, the LIBOR Transition Rules will provide for the transition of existing LIBOR-based contracts into SONIA and SARON Contracts that are already cleared by the Clearing House. As such, the contracts resulting from the transition will be cleared pursuant to the existing risk management, financial, operational and other resources and arrangements of the Clearing House applicable to such SONIA and SARON Contracts. ICE Clear Europe believes such resources and arrangements will be sufficient to support the clearing of the transitioned contracts. ICE Clear Europe further notes that the amendments and transition process are intended to be consistent with, and facilitate, the market-wide transition away from LIBOR-based contracts to so-called “risk-free” rates such as SONIA and SARON, in light of the expressed positions of relevant regulators and the commitments made by industry groups and market participants. As noted above, prior to the transition, market participants are able on a voluntary basis to close out of Sterling and Swiss Franc LIBOR contracts, and/or enter into SONIA or SARON Contracts, through market transactions. The amendments provide a fallback to the extent market participants have not voluntarily adjusted their positions as of the transition time. For the foregoing reasons, ICE Clear Europe believes that the amendments are consistent with the requirements of Core Principle C and Commission Rule 39.12(b).
- *Risk Management.* As discussed herein, the LIBOR Transition Rules will provide for the transition of existing LIBOR-based contracts into SONIA and SARON Contracts that are currently cleared by the Clearing House. As such, the contracts, upon transition, will be subject to the existing risk management framework and procedures of the Clearing House applicable to SONIA and SARON Contracts. The LIBOR Transition Rules also contain certain other arrangements to facilitate the transition, including addressing odd lots of existing contracts or unbalanced books via appropriate cash settlement at market value under a pre-determined methodology, and providing for a one-time adjustment payment to reflect the change in value resulting from a change in the expiration date of some option contracts. The amendments thus are consistent with the Clearing House’s overall risk management, and the requirements of Core Principle D and CFTC Rule 39.13.

As set forth herein, the amendments consist of the amendments to the Rules, a copy of which is attached hereto.

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

ICE Clear Europe conducted a public consultation regarding the proposed amendments.⁴ ICE Clear Europe has received no substantive opposing views in relation to the proposed 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

⁴ ICE Clear Europe Circular C21/113 (27 September 2021), available at https://www.theice.com/publicdocs/clear_europe/circulars/C2113.pdf.