February 14, 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 – CDS Procedures, CDS Risk Policy and CDS Risk Model Description 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, the amendments to its CDS Procedures (the "CDS Procedures") and its CDS Risk Policy (the "CDS Risk Policy") and CDS Risk Model Description (the "CDS Risk Model Description") discussed herein. 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.

Concise Explanation and Analysis

ICE Clear Europe is modifying certain provisions of its CDS Procedures to support clearing of a new single-name credit default swap ("CDS") transaction type. ICE Clear Europe also is amending its CDS Risk Policy and CDS Risk Model Description to better address certain risks associated with CDS referencing European banks relating to the issuance of new debt structures by those banks. These revisions do not involve any changes to the ICE Clear Europe Clearing Rules (the "Rules").[1]

Amendments to the CDS Procedures

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

The purpose of the changes to the CDS Procedures is to support clearing of a new single-name CDS transaction type: Standard European Senior Non-Preferred Financial Corporate. ICE Clear Europe understands that market participants generally propose to commence trading of this transaction type as of March 20, 2018, and relevant standard documentation for the transaction type has recently been published by the International Swaps and Derivatives Association, Inc. ("ISDA"). Transactions under such standard documentation, will be generally similar to Standard European Financial Corporate transactions currently cleared by the Clearing House, but will have a reference obligation that will be subordinated to other senior obligations, but will rank senior to so-called "tier 2" obligations that are subordinated for purposes of European Union bank regulatory capital requirements. ICE Clear Europe is amending its CDS Procedures to provide for the clearance of contracts referencing this new transaction type. ICE Clear Europe believes the addition of these contracts will benefit the market for credit default swaps by providing market participants the benefits of clearing, including reduction in counterparty risk and safeguarding of margin assets pursuant to Clearing House Rules.

Specifically, ICE Clear Europe is amending Paragraph 4.3(c)(ii) of the CDS Procedures to reference Standard European Senior Non-Preferred Financial Corporate as a transaction type eligible to be submitted for clearing. Similarly, Paragraph 11.3(i) is amended in the definition of 'Non-STEC Single Name Contract' to include Standard European Senior Non-Preferred Financial Corporate in the list of types of Reference Entities eligible to be cleared by ICE Clear Europe. ICE Clear Europe also is amending the definition of 'Single Name Contract Reference Obligations' in Paragraph 11.3(j) to remove a requirement that the relevant obligation must be a "senior level" obligation, and add instead that the obligation be of the applicable seniority level for the terms of the contract (to accommodate the seniority level of Senior Non-Preferred transactions, as discussed above).

Amendments to the CDS Risk Model Description

ICE Clear Europe's risk management methodology incorporates considerations of idiosyncratic credit events and the associated potential losses. These credit event losses are termed Loss-Given-Default ("LGD"). In order to support clearing of the new transaction type, ICE Clear Europe is making certain LGD enhancements to its risk model. A description of these changes is set forth below.

ICE Clear Europe first is making Risk Factor ("RF") level LGD enhancements to better capture the LGD risk associated with the issuance of new debt structures by European banks, and provide a consistent recovery rate scenario approach to different sub-factors.

Under ICE Clear Europe's risk model, every Single Name ("SN") reference entity is deemed an RF. Each combination of definition, doc-clause, tier and currency for a given SN RF determines a SN Risk Sub-Factor ("RSF"). Currently, ICE Clear Europe measures losses associated with credit events ("LGD") by means of a stress-based approach, which utilizes three recovery rate ("RR") scenarios: minimum RR, expected RR, and maximum RR. Outright and index-derived RSF exposures are combined at each RR scenario.

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The results of these RR scenarios are used as an input into the Profit/Loss-Given Default ("P/LGD") calculations at both the RSF and RF levels. For each RSF, P/LGD is calculated as the worst credit event outcome, and for each RF, P/LGD is calculated as the sum of the worst credit outcomes per RSF. These final P/LGD results are used as part of the determination of risk requirements.

ICE Clear Europe will enhance the RF level LGD calculation by incorporating a more consistent approach in the calculation of the P/LGD by using the same RR scenarios applied to the different RSFs which form part of the considered RF.

For each RF, ICE Clear Europe will continue to calculate an "extreme outcome" as the sum of the worst RSF P/LGDs across all scenarios. ICE Clear Europe will also, for each RF, calculate an "expected outcome" as the worst sum of all the RSF P/LGDs across all of the same scenarios. Under the revised approach, ICE Clear Europe will then combine the results of the "extreme outcome" calculation and the "expected outcome" calculation to compute the total LGD for each RF.

ICE Clear Europe also is expanding its LGD analysis to Risk Factor Groups ("RFG"). Under the changes, a collection of related RFs will form a RFG. These related RFs will be defined as a RFG based on either 1) having a common majority parental sovereign ownership (e.g. quasi-sovereigns and sovereigns), or 2) being a majority owned subsidiary of a common parent entity according to the Bloomberg Related Securities Analysis. A RFG can consist of only one RF. This change will better capture the risk exposure dynamics of related RFs, and will allow ICE Clear Europe the ability to provide limited LGD benefits across RFs with opposite exposures, as well as allow for the ability to capture accumulation of directional exposure for related RFs.

Under the revised approach, the total quantity LGD will be calculated on a RFG level, and account for the exposure due to credit events associated with the reference entities within a given RFG. If a RFG contains only one RF, the LGD will continue to be computed as the risk exposure due to a credit event for a given underlying reference entity. Under the approach, ICE Clear Europe will sum the P/LGDs for each RF in a given RFG, with limited offsets in the event RFs exhibit positive PLGD. Using the results of the above calculation, ICE Clear Europe will obtain the RFG level LGD. The approach also includes a calculation which allows for the RFG level LGD to be attributed to each RF within the considered RFG.

ICE Clear Europe is changing the 'Loss Given Default Risk Analysis' section of the Risk Management Model Description Document to reflect the described RF and RFG LGD calculation changes. ICE Clear Europe also is making conforming changes to other sections of the CDS Risk Model Description to incorporate these methodology changes and reflect the RFG analysis.

ICE Clear Europe is revising the 'Uncollateralized Loss Given Default' calculation in order to incorporate the RFG level LGD attribution calculation mentioned above.

ICE Clear Europe is also revising the 'Idiosyncratic Jump-to-Default Requirements' section of the Risk Management Model Description document. Currently, the portfolio Jump to Default ("JTD") approach collateralizes the worst uncollateralized

LGD ("ULGD") exposure among all RFs. Under the revised approach, the portfolio JTD approach will collateralize, through the portfolio JTD IM requirement that accounts for the RFG-specific LGD collateralization, the worst ULGD exposure among all RFGs. The ULGD exposure for a given RFG will be calculated as a sum of the associated RF ULGDs.

ICE Clear Europe also is making minor edits to the 'SWWR' (Specific Wrong Way Risk) and 'GWWR' (General Wrong Way Risk) sections to update language and calculation descriptions to accommodate the introduction of the RFG to the 'Idiosyncratic Jump-to-Default Requirements' section.

ICE Clear Europe is revising the 'Guaranty Fund Methodology' section. ICE Clear Europe's risk management approach establishes GF to provide for the mutualization of losses under extreme credit market scenarios. Specifically, the ICE Clear Europe GF is designed to provide adequate funds to cover losses associated with the default of the two Clearing Member ("CM") affiliate groups that would potentially cause the largest aggregate credit exposure to ICE Clear Europe under extreme, but plausible market conditions. ICE Clear Europe's current GF methodology includes, among other assumptions and adverse market conditions, the assumption that up to three credit events, different from the ones associated with CMs, occur during the established risk horizon. ICE Clear Europe will expand this analysis to the RFG level. Under this revised approach, it will be assumed that credit events associated with up to three RFGs, different from the ones associated with the CMs and the RFs that are in the RFGs as the CMs, occur during the established risk horizon. As such, the uncollateralized losses, used in the Guaranty Fund analysis, reflect the expansion to the RFG level.

ICE Clear Europe also is clarifying the calculation for the Specific Wrong Way Risk component of the Guaranty Fund. Currently, for a given CM, the Specific Wrong Way Risk component is based on self-referencing positions arising from one or more RFs; ICE Clear Europe is clarifying this analysis to be based on the RFG level.

<u>Amendments to the CDS Risk Policy</u>

ICE Clear Europe is also making conforming changes to the CDS Risk Policy consistent with those described above.

Specifically, the definition of a Risk Sub-Factor is amended to be defined as a specific combination of SN, tier and currency (as well as documentation clause), where the union of all Risk Sub-Factors that share the same underlying SN forms a SN Risk Factor.

The CDS Risk Policy is also being amended such that instead of the worst SN, the worst LGD associated with a Risk Factor Group ("RFG") will be selected to establish the portfolio JTD requirement. The amendments also clarify that a Risk Factor Group is a set of Risk Factors related by a common parental ownership.

With respect to the guaranty fund calculation, provisions in respect of two uncollateralized LGD relating to the guaranty fund calculation is being amended such that instead of the GF LGD being estimated for every SN based on the total portfolio positions in the SNs, the GF LGD will be estimated for every RFG based on the total portfolio positions in the SNs belonging to the same RFG.

Compliance with the Act and CFTC Regulations

The rule amendments are potentially relevant to the following core principles: (B) Financial Resources, (C) Participant and Product Eligibility, (D) Risk Management, (E) Settlement Procedures and (G) Default Management and the applicable regulations of the Commission thereunder.

- *Financial Resources.* ICE Clear Europe will apply its existing initial margin methodology to the clearing of Standard European Senior Non-Preferred Financial Corporate transactions (with the modifications to the CDS Risk Policy and CDS Risk Model Description discussed herein). ICE Clear Europe believes that this model (as amended) will provide sufficient initial margin requirements to cover its credit exposure with respect to such contracts. In addition, ICE Clear Europe believes that its Guaranty Fund, under the revised methodology, will, together with the required intial margin, provide sufficient financial resources to support the clearing of the new contracts. 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.

  Product Eligibility. As set forth above, the amendments to the Clearing Procedures support the clearing of a new single-name CDS transaction type. These contracts are similar to the Non-STEC Single Name contracts currently cleared by ICE Clear Europe. The new contracts will be cleared pursuant to ICE Clear Europe's existing clearing arrangements and related financial safeguards, protections and risk management procedures (with the modifications to the CDS Risk Policy and CDS Risk Model Description discussed above). Clearing of these contracts will allow market participants an increased ability to manage risk. ICE Clear Europe also believes its existing operational and managerial resources will be sufficient for clearing the contracts, as they are substantially the same from an operational perspective as existing contracts. As a result, ICE Clear Europe believes that the amendments comply with the requirements of Core Principle C and Commission Rule 39.12(b).

- *Risk Management*. The amendments are intended to support clearing of the new contracts and better address certain risks associated with CDS referencing European banks relating to the issuance of new debt structures by those banks. These amendments, and in particular the LGD modifications, are intended to enhance ICE Clear Europe's risk methodology under its margin and guaranty fund models, and in this regard to impose more conservative requirements. As a result, in ICE Clear Europe's view, the amendments are consistent with the risk management requirements of Core Principle D and Commission Rule 39.13.

- *Settlement Procedures*. As set forth above, ICE Clear Europe will use its existing settlement procedures and account structures for the new contracts,

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consistent with the requirements of Core Principle E and CFTC Rule 39.14, as to the finality and accuracy of its daily settlement process and avoidance of the risk to ICE Clear Europe of settlement failures.

- *Default Management*. ICE Clear Europe will apply its existing default management policies and procedures to the new contracts. ICE Clear Europe believes that these procedures allow it to take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of Clearing Member insolvencies or defaults in respect of the additional contracts, in accordance with Core Principle G and Commission Rule 39.16.

As set forth herein, the amendments consist of changes to the CDS Procedures, CDS Risk Policy and CDS Risk Model Description. A copy of the amendments to the CDS Procedures is attached hereto. ICE Clear Europe has requested confidential treatment with respect to the amendments to the CDS Risk Policy and CDS Risk Model Description, which have been submitted currently 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 patrick.davis@theice.com or +44 20 7065 7738 or Dee Blake, Director of Regulation, at dee.blake@theice.com or +44 20 7065 7752.

Very truly yours,

Patrick Davis
Head of Legal and Company Secretary