



May 13, 2019

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 –  
Amendments to Risk Management Model Description document

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 Risk Management Model Description<sup>1</sup> document to incorporate certain risk model enhancements. ICEU is registered with the Commission as a derivatives clearing organization (“DCO”). 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*

The ICE Clear Europe CDS risk model includes explicit provision to account for the additional liquidation cost due to the exposure to Bid/Offer Width (“BOW”) as, in the event of Clearing Member default, the Clearing House might incur in additional costs to unwind the positions. Specifically, a bid/offer risk requirement, named liquidity charge, is introduced. Such liquidity charges are computed separately for single names and indices.

ICE Clear Europe proposes a revised approach to computing single name CDS liquidity charges. Specifically, ICE Clear Europe proposes to introduce minimum instrument

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<sup>1</sup> Capitalized terms used but not defined herein have the meanings specified in the ICE Clear Europe ICEU Risk Management Model Description document.

liquidity requirements independent of instrument maturities. ICE Clear Europe's current spread-based liquidity charge approach features instrument liquidity requirements that decay with time to maturity for fixed credit spread levels. The proposed approach introduces minimum liquidity requirements for individual instruments, independent of time to maturity for the considered instruments, and thus establishes minimum liquidity charges that do not decay over time as contract maturity is approached. The proposed calculation for single name CDS liquidity charges at the instrument level incorporates a price-based bid-offer width floor component to provide stability and anti-procyclicality requirements, as well as a dynamic spread-based BOW component to reflect the additional risk associated with distressed market conditions. The values of such price-based BOW and spread-based BOW are fixed factors, which are subject to at least monthly reviews and updates by ICE Clear Europe Risk Management Department with consultation with the Risk Working Group.

ICE Clear Europe also proposes enhancements to the liquidity charge calculation at the single name level. The current liquidity charge approach at the single name level accounts for the liquidation cost across the curve. All positions are aggregated and priced at each maturity interval separately as a synthetic forward CDS instrument. This current approach introduces potential sub-additivity at the single name level, as it may result in a higher liquidity charge than the sum of the single name instrument requirements.

Under the proposed calculation, liquidity charges at single name level will be computed by first calculating the liquidity requirements for each individual instrument position in the portfolio, and then summing all instrument liquidity requirements for positions with the same directionality, i.e. bought or sold protection. The liquidity charge requirements at the single name level will be the greatest liquidity requirement associated with either the sum of all bought protection position liquidity requirements, or the sum of all sold protection position liquidity requirements. Under this proposed approach, the portfolios' liquidity charge cannot exceed the sum of the individual instrument's requirements. There are no changes to the liquidity charge calculation at the portfolio level. ICE Clear Europe expects these enhancements will ensure more stable liquidity requirements for instruments across the curve. Further, the enhancements simplify ICE Clear Europe's liquidity charge methodology, which promotes ease of understanding. As stated above, the current single name level liquidity requirements are based on forward CDS spread levels and are, in general, more difficult to calculate as forward spread levels are not observable across the term structure ("curve"). ICE Clear Europe, as part of its end-of-day price discovery process, provides end-of-day pricing data for instruments in which clients have open positions, which will, under the proposed approach, allow for easier replication for clients who wish to estimate liquidity charges for hypothetical and current positions.

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

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

- *Financial Resources.* The revisions to the ICEU Risk Management Model Description document are consistent with the financial resources requirements

of Core Principle B. The proposed changes will enhance the financial resources available to the clearing house by promoting stability and conservative bias of requirements.

- Risk Management. The revisions to the ICEU Risk Management Model Description document are consistent with the risk management requirements of Core Principle D. The proposed changes provide clarity and enhance risk policies, resulting in enhanced stability and conservative bias of requirements, and thereby ensuring that ICEU possesses the ability to manage the risks associated with discharging its responsibilities.

As set forth herein, the amendments consist of changes to the Risk Management Model Description document. ICEU has respectfully requested confidential treatment for the ICEU Risk Management Model Description document which was submitted concurrently with this 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 [Giulia.honorati@theice.com](mailto:Giulia.honorati@theice.com) or +44 20 7429 7127.

Very truly yours,



Giulia Honorati  
Manager Regulation & Compliance