



June 7, 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 End-of-Day Price  
Discovery Policy 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 End-of-Day Price Discovery Policy (“Price Discovery Policy”)<sup>1</sup> 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 proposes revising its Price Discovery Policy to enhance the methodology used to determine bid-offer widths (“BOWs”) for CDS Contracts to incorporate a new variability band methodology, and to make certain other updates and clarifications.

Each business day, ICE Clear Europe determines end-of-day (“EOD”) levels for CDS Contracts through its Price Discovery Policy, based on EOD submissions from its CDS Clearing Members. ICE Clear Europe uses these levels for mark-to-market and risk management purposes. As part of this price discovery process, ICE Clear Europe determines BOWs for each eligible CDS Contract. The BOW is intended to estimate the bid-offer width for the two-way market available for each clearing-eligible

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<sup>1</sup> Capitalized terms used but not defined herein have the meanings specified in the ICE Clear Europe Clearing Rules.

instrument at the specified determination time on each business day. The BOWs are then used in ICE Clear Europe's price discovery process as inputs in the determination of EOD levels and firm trades, and other risk management matters.

The current methodology for determining BOWs is based on observed intraday quotes and an assessment of the current level of market variability. Based on this information, ICE Clear Europe determines a consensus BOW for each relevant instrument. The amendments remove from the Price Discovery Policy an alternative approach for calculating consensus BOWs using exponentially weighting moving averages that was planned but never implemented. The amendments restate the current methodology in use (which is based on specified averages of BOW time series).

The amendments also adopt a new variability band approach for widening BOWs in certain market conditions. Under volatile or fast-moving market conditions, BOWs may temporarily be wider than observed in intraday quotes. Currently, ICE Clear Europe's clearing risk department monitors market conditions and may apply manual adjustments to BOWs as appropriate to take into account such conditions. ICE Clear Europe proposes to capture such market conditions in a more comprehensive and automated way through a methodology that computes a variability level and a variability band for each of the main risk factors based on a time series of intraday quote mid-levels for the most actively traded instrument ("MATI") of the considered risk factor. The BOW will be automatically adjusted based on the variability band, as discussed herein.

For index instruments, under the revised approach, ICE Clear Europe will compute a variability level for each of the main index risk factors. For each instrument, ICE Clear Europe's systems establish a time series of intraday quote mid-levels for the MATI. If the last mid-level in the time series is below the prior day's EOD level by more than one pre-defined BOW for regime 3, the variability level is the difference between the prior day's EOD level and the minimum mid-level in the time series, divided by the pre-defined BOW. For intraday mid-levels falling within one pre-defined regime 3 BOW from the prior day's EOD level, the variability level is set to 1.0 if the range of mid-levels in the time series is less than or equal to the pre-defined regime 3 BOW, and set to 1.2 if the range of mid-levels in the time series is greater than the pre-defined regime 3 BOW.

Under the revised policy, ICE Clear Europe will establish variability bands (from zero to three) that correspond to specific ranges of variability level (with band zero having the lowest range of variability level). ICE Clear Europe will then group index risk factors into specific market-proxy groups, CDX (covering the North American investment grade and high yield index risk factors) and iTraxx (covering the iTraxx main, cross over, senior financial, sub financials and high volatility index risk factors). For each market proxy group, ICE Clear Europe will determine a market proxy variability band by using the largest variability band computed for the index risk factors within that proxy group.

For index instruments, ICE Clear Europe will continue to maintain three different predefined BOWs, each of which corresponds to one of three specific market regimes

(regime 1, regime 2 and regime 3, with the BOW for regime 1 being the smallest and regime 3 the largest). As under the current approach, ICE Clear Europe first selects the market regime for each index risk sub-factor based on its MATI. Under the revised approach, ICE Clear Europe will then adjust the regime for each index risk sub-factor's MATI depending on the applicable market proxy variability band for the instrument. The adjustment (referred to as an index variability increment) can be none, one regime (moving from Regime 1 to Regime 2 or from Regime 2 to Regime 3), or two regimes (moving from Regime 1 to Regime 3 or from Regime 2 to Regime 3). Higher market proxy variability bands result in a larger adjustment. The clearing risk department has the discretion to adjust market regimes as it determines best reflects current market conditions.

For single-name instruments, the revised policy applies a new scaling factor, referred to as an SN variability factor, to the consensus EOD BOWs for single name instruments calculated under the existing methodology. The SN variability factor will be determined based on a market proxy variability band. ICE Clear Europe will assign each single name risk factor to a specific market proxy group (CDX for standard North American corporates, iTraxx for standard European corporates and standard Western European sovereigns). The scaling factor will range from 1 to 1.5, depending on the market proxy variability band (with higher bands having a higher variability factor). The clearing risk department also has discretion to override the scaling factor with any factor it deems appropriate to best reflect market conditions.

In connection with these changes, ICE Clear Europe is removing from the policy an alternative approach to variability adjustments that was planned but had not been implemented.

The amendments also contain various typographical corrections, updates to cross-references and similar clarifications.

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

The amendments are potentially relevant to the following core principles: (D) Risk Management and (E) Settlement Procedures and the applicable regulations of the Commission thereunder.

- ***Risk Management.*** The amendments are intended to enhance ICE Clear Europe's EOD pricing methodology, which is used to determine end of day settlement prices for CDS Contracts and is a key aspect of the risk management procedures of the Clearing House. Specifically, the amendments incorporate a new variability band approach intended to allow the Clearing House to determine BOWs in a more comprehensive and automated manner. In ICE Clear Europe's view the revised approach will better reflect market conditions, particularly during periods of high market volatility. As a result, the amendments will strengthen the overall risk management infrastructure of the Clearing House, and facilitate having a reliable source of timely price data in order to measure its credit exposure accurately. The amendments are therefore consistent with the risk management requirements of Core Principle D and Commission Rule 39.13.

- *Settlement Procedures.* As noted above, the amendments are intended to enhance the process of determining EOD settlement values for CDS Contracts, which are used for purposes of daily mark-to-market settlement. The amendments provide a more comprehensive and automated approach to determining BOWs used in the EOD price discovery process. In particular, ICE Clear Europe believes that the new variability band approach will provide a more accurate method for determining BOWs, and thus EOD prices generally, including in periods of high market volatility. As a result, in ICE Clear Europe's view, the amendments are consistent with the requirements of Core Principle E and Commission Rule 39.14.

As set forth herein, the amendments consist of changes to the Price Discovery Policy. ICE Clear Europe has requested confidential treatment with respect to these amendments, which have been submitted currently with this self-certification submission.

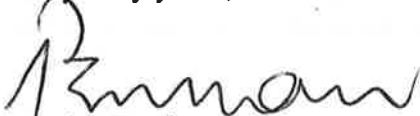
ICE Clear Europe hereby certifies that the amendments comply with the Act and the Commission's regulations thereunder.

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](mailto:patrick.davis@theice.com) or +44 20 7065 7738 or Rachel Pearson, Legal Counsel, at [rachel.pearson@theice.com](mailto:rachel.pearson@theice.com) or +44 20 7429 3065.

Very truly yours,



Patrick Davis  
Head of Legal and Company Secretary