



July 26, 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”)¹ 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 BOWs for single name CDS contracts and to make corresponding changes to related governance processes.

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

¹ Capitalized terms used but not defined herein have the meanings specified in the ICE Clear Europe Clearing Rules (the “Rules”).



The BOWs are then used in ICE Clear Europe's price discovery process as inputs in the determination of EOD levels, and other risk management matters.

The current methodology for determining BOWs for single-name CDS Contracts is based on a consensus BOW derived from observed intraday spread-quotes for the most actively traded instrument ("MATI") across the term structure and cleared coupons. The spread-based consensus BOW is multiplied by a "scrape factor" to reflect any differences between the BOWs provided in intraday quotes and BOWs achieved in the market. ICE Clear Europe applies various factors to the consensus BOW to reflect differences in instrument liquidity at longer and shorter maturities, and at higher and lower coupons.

ICE Clear Europe is proposing to enhance the methodology for determining EOD BOWs for single name instruments. The enhancement eliminates the use of the ISDA CDS Standard Model from the computation of single name BOWs. ICE Clear Europe established its current BOW methodology at a time when it accepted submissions to its end-of-day price discovery process in both spread and price terms, at the discretion of its Clearing Members. Since that time, ICE Clear Europe has enhanced its end-of-day price discovery process to accept Single Name submissions only in price terms, eliminating the need for spread-based BOWs. The proposed enhancement also determines BOWs consistently across single names on all reference entities, including those for which only sparse intraday data is available. The enhancement extends the application of price-based BOW floors from the 0/3 month, 6 month and 1 year benchmark tenors to the entire set of benchmark tenors. Finally, the proposed enhancement introduces a dynamic feature that can widen BOWs in response to the observed dispersion of price-space mid-market levels submitted in the EOD price discovery process.

Under the proposed enhancement ICE Clear Europe will compute a consensus BOW for each benchmark instrument, not only for the most actively traded instrument. Rather than consensus BOWs being derived only from intraday quotes, they will be computed as a price-based floor plus a fraction of the instrument's currently observed level, based on the average of price-space mid-market levels submitted by CDS Clearing Members as part of the EOD price discovery process. ICE Clear Europe will continue to apply various factors to the consensus BOW to reflect differences in liquidity at longer and shorter maturities and at higher and lower coupons. The Clearing House will determine systematic BOWs for each benchmark instrument at the most actively traded coupon ("MATC") by applying tenor scaling factors to the corresponding consensus BOWs. These tenor scaling factors reflect the BOW of each tenor relative to the BOW of the most actively traded tenor. ICE Clear Europe will determine systematic BOWs for each benchmark instrument at other coupons by applying a combination of tenor scaling factors and coupon scaling factors to the corresponding consensus BOWs. Coupon scaling factors are an adjustment to the BOW to reflect decreased market activity at coupons larger or smaller than the MATC, and accordingly result in a wider BOW for such coupons as compared to the MATC. ICE

Clear Europe will apply the appropriate Single Name variability factor resulting in the final systematic EOD BOWs based on the applicable variability band (a similar variability factor can be applied in the current approach, but on a discretionary basis). The variability factor is an additional scaling factor that widens the BOW to account for volatile or fast-moving market conditions, on the basis of a market proxy variability band that is designed to reflect observed variability levels in intraday quotes.

ICE Clear Europe will determine the final EOD BOW as the greater of an instrument's systematic BOW, and a dynamic BOW established for the instrument based on the dispersion of price-based mid-market EOD submissions by CDS Clearing Members for the given instrument. The amendments remove the requirement for ICE Clear Europe to provide the spread space equivalents for BOWs.

ICE Clear Europe also proposes revisions to the governance provisions of the Price Discovery Policy. Under the revisions, and consistent with the amendments to the methodology described above, the parameters used in the EOD price discovery process are established by ICE Clear Europe's clearing risk department in consultation with ICE Clear Europe's trading advisory committee, which provides additional insight into current market dynamics and conditions. The responsibilities of ICE Clear Europe's clearing risk department in this regard will include determining the price-based floors and scaling factors used to establish BOWs.

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 designed to enhance the Price Discovery Policy, which is necessary to determine the daily settlement prices for cleared CDS Contracts that are key inputs of the risk management and margin models of the Clearing House. The proposed amendments will update the methodology for determining BOWs, which are an important part of the determination of the EOD level. The amendments provide a more comprehensive and dynamic approach for determining BOWs for single-name CDS Contracts that applies across all tenors of such contracts. The revised methodology takes into account both observed and submitted price levels and implements appropriate price floors and tenor, coupon and variability scaling factors that can adjust the BOW for particular instruments (including less actively traded instruments) to reflect liquidity and other market conditions. In ICE Clear Europe's view, the revised approach, together with the other aspects of the Price Discovery Policy, will facilitate more accurate determinations of EOD levels for the full range of cleared single-name instruments, and strengthen the overall EOD price discovery process. The amendments are therefore consistent with the risk management requirements of Core Principle D and Commission Rule 39.13.

- *Settlement Procedures.* As described above, the proposed amendments are designed to enhance the Clearing House's Price Discovery Policy, which is necessary to determine the daily settlement prices for cleared CDS Contracts that are used in mark-to-market margin settlement for such contracts. ICE Clear Europe believes that this revised approach will provide a more accurate method for determining BOWs across the full range of cleared single-name CDS instruments, including for instruments less actively traded and for which pricing data is less readily available. The amendments thus facilitate determination of EOD prices for such contracts generally. 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 rachel.pearson@theice.com or +44 20 7429 3065.

Very truly yours,



Rachel Pearson
Legal Counsel