SUBMISSION COVER SHEET

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Registered Entity Identifier Code (optional): ____________________________

Organization: ICE Clear Europe Limited

Filing as a: ☐ **DCM** ☐ **SEF** ☑ **DCO** ☐ **SDR** **Please note - only ONE choice allowed.**

Filing Date (mm/dd/yy): 07/31/2015 **Filing Description:**

Amendments to CDS Risk Policies

SPECIFY FILING TYPE **Please note only ONE choice allowed per Submission.**

Organization Rules and Rule Amendments

☑	Certification	§ 40.6(a)
☐	Approval	§ 40.5(a)
☐	Notification	§ 40.6(d)
☐	Advance Notice of SIDCO Rule Change	§ 40.10(a)
☐	SIDCO Emergency Rule Change	§ 40.10(h)

Rule Numbers: CDS Risk Policy, CDS Risk Model Description

New Product **Please note only ONE product per Submission.**

☐	Certification	§ 40.2(a)
☐	Certification Security Futures	§ 41.23(a)
☐	Certification Swap Class	§ 40.2(d)
☐	Approval	§ 40.3(a)
☐	Approval Security Futures	§ 41.23(b)
☐	Novel Derivative Product Notification	§ 40.12(a)
☐	Swap Submission	§ 39.5

Official Product Name: ____________________________

Product Terms and Conditions (product related Rules and Rule Amendments)

☐	Certification	§ 40.6(a)
☐	Certification Made Available to Trade Determination	§ 40.6(a)
☐	Certification Security Futures	§ 41.24(a)
☐	Delisting (No Open Interest)	§ 40.6(a)
☐	Approval	§ 40.5(a)
☐	Approval Made Available to Trade Determination	§ 40.5(a)
☐	Approval Security Futures	§ 41.24(b)
☐	Approval Amendments to enumerated agricultural products	§ 40.4(a), § 40.5(a)
☐	"Non-Material Agricultural Rule Change"	§ 40.4(b)(5)
☐	Notification	§ 40.6(d)

Official Name(s) of Product(s) Affected: ____________________________

Rule Numbers: ____________________________

July 31, 2015

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 CDS Risk Policies

Dear Mr. Kirkpatrick:

ICE Clear Europe Limited ("ICE Clear Europe"), a registered derivatives clearing organization under the Commodity Exchange Act, as amended (the "Act"), hereby submits to the Commodity Futures Trading Commission (the "Commission"), for self-certification pursuant to Commission Rule 40.6, the rule amendments discussed herein. The amendments are to become effective on the business day following the tenth business day after submission, or such later date as ICE Clear Europe may determine.

Concise Explanation and Analysis

The principal purpose of the changes is to amend certain ICE Clear Europe risk policies relating to the CDS product category to incorporate enhancements to the existing CDS risk model (the "Risk Policy Amendments"). The relevant policies being modified are the CDS Risk Policy ("CDS Risk Policy") and the CDS Risk Model Description ("Risk Model Description"). ICE Clear Europe is not making any changes to its Clearing Rules or Procedures in connection with these amendments.

The amendments would, among other matters, (i) modify the credit spread response component of the risk model to devolatilize returns, (ii) enhance the portfolio spread response component of the risk model to limit procyclicality, (iii) establish a new framework for recovery rate sensitivity requirement ("RRSR") parameters, (iv) modify the CDS Guaranty Fund allocation methodology, (v) modify index liquidity

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and concentration charges and (vi) revise procedures for intraday margin calls. The Risk Policy Amendments also include certain other clarifications and conforming changes.

The following is a summary of the principal changes in the Risk Policy Amendments:

Devolatilization of Credit Spread Response. Under the revised Risk Model Description, the credit spread response component of the margin model would be revised to provide that the tail estimation of the relevant fitted returns distribution is based on devolatilized returns. The use of devolatilized returns in this manner facilitates the comparison of returns for periods with different volatilities.

Procyclicality of Portfolio Spread Response. In order to limit procyclicality of the spread response component of the model, ICE Clear Europe proposes to modify the model to use an additional portfolio analysis that features price changes observed during and immediately after the Lehman Brothers default. The analysis considers price scenarios derived from the greatest price decrease and increase during and immediately after the Lehman Brothers default. These scenarios are designed to capture the default of a major participant in the credit market and the market response to the event. The introduced scenarios are defined in price terms to maintain the stress severity during periods of low credit spread levels (high price) when the spread response requirements, computed under the current framework, are expected to be lower. Furthermore, the Lehman default price scenarios are also incorporated into the calculation of CDS Guaranty Fund requirements.[1]

Recovery Rate Sensitivity Requirements. ICE Clear Europe proposes to incorporate a more sensitive parameter estimation approach for the RRSR computation. The RRSR factor is designed to capture the risk of fluctuations in market expected recovery rates under CDS transactions. Under the current model, the RRSR is determined using fixed minimum and maximum recovery rate stress scenarios based on sector levels. In calculating the RRSR, all instruments belonging to a risk factor ("RF") or risk sub-factor ("RSF") are subjected to recovery rate stress scenarios to obtain resulting profit/loss responses, and the worst scenario response is chosen for the estimation of the RRSR. (In addition, these same recovery rate stress scenarios are used in determination of jump-to-default requirements.)

ICE Clear Europe proposes separating the recovery rate stress levels for these two computations in order to introduce more dynamic and appropriate estimations of the recovery rate stress levels for RRSR purposes. Under the revised framework, the recovery rate levels for RRSR purposes will be determined using a 5-day, 99% confidence interval expected shortfall risk measure assuming a distribution of recovery rate fluctuations. The proposal will also eliminate index RRSR, as index recovery rates are assumed under relevant market convention and are thus not subject to market uncertainty. The dynamic feature of the revised stress level estimations is

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[1] This enhancement also addresses a regulatory requirement in Article 30 of the Regulatory Technical Standards implementing the European Market Infrastructure Regulations ("EMIR"). Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012 Supplementing Regulation (EU) No. 648/2012 of the European Parliament and of the Council with regard to Regulatory Technical Standards on Requirements for Central Counterparties (the "Regulatory Technical Standards").

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achieved by analyzing historical time series of recovery rates in order to calibrate a statistical model with a time varying volatility. In ICE Clear Europe's view, the enhancements provide a robust and quantitative driven approach for establishing the recovery rate stress scenarios.

Modifications to Guaranty Fund Methodology. ICE Clear Europe is adopting certain clarifications and enhancements to its CDS Guaranty Fund methodology, including for consistency with its Finance Procedures and Membership Procedures. The Risk Model Description has been revised to address the treatment of affiliated Clearing Members. ICE Clear Europe is also modifying the procedure for allocating CDS Guaranty Fund requirements among the CDS Clearing Members. Under the existing model, CDS Guaranty Fund allocations reflect a risk "silo" approach, in which a Clearing Member's contribution reflects its uncollateralized exposure for each CDS Guaranty Fund component or "silo". Under the current approach, allocations can significantly fluctuate in response to position changes in the portfolios of the Clearing Members that drive the CDS Guaranty Fund size, and in response to the distribution of the total CDS Guaranty Fund size across all "silos". The Clearing House proposes modifying the methodology, so that the allocations are based on the Clearing Members' total unconditional uncollateralized losses in the CDS product category.[2] Under the revised approach, the allocations are independent of the distribution of the uncollateralized losses across the "silos". In ICE Clear Europe's view, the new allocation methodology reflects an improved and more stable approach which allows for easier attributions of contributions to individual CDS Clearing Member or client portfolios.

Index Liquidity and Concentration Charges. ICE Clear Europe is modifying the liquidity charge calculation in the margin model as it applies to index CDS positions. (The existing liquidity charge calculation for single-name CDS will remain unchanged.) The revised approach will address calculation of liquidity charges where index CDS is traded under either price or spread terms, and will calculate a separate liquidity charge for positions in each series of the relevant index. The revised approach also limits the reduction in liquidity charge for offsetting positions across different series of the same index family, by applying the greater of the liquidity charge applicable to the long and short positions in the relevant portfolio in the same index family.

Similarly, ICE Clear Europe is modifying the concentration charge calculation for index CDS positions. (Again, the existing approach for single-name CDS will not change.) The revised framework provides for calculation of series-specific concentration charges, based on the direction of the 5-year equivalent notional amount or the net notional amount of positions in the particular series and a series threshold limit (above which the concentration charge is imposed).

Intraday Margin Calls. Certain amendments are made to the intra-day risk monitoring and special margin call processes. Intra-day margin calls will be made based on an "Intraday Risk Limit." The Intraday Risk Limit is set at the Clearing Member level and is calculated based on 40% of the total initial margin requirements

[2] The existing specific wrong way risk component of the CDS Guaranty Fund calculation is maintained.

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(across all account classes), subject to a minimum and maximum amount. Intra-day margin calls will be made on the following basis: (i) where there has been a 50% erosion of the Intraday Risk Limit, the Risk Department will investigate what is driving the shortfall and monitor the CDS Clearing Member, (ii) where the erosion of the Intraday Risk Limit exceeds 50%, the Risk Department will inform the CDS Clearing Member that its initial margin may cease to be sufficient and that it may be subject to an intraday margin call, and (iii) where there has been a 100% erosion of the Intraday Risk Limit, the Risk Department will issue an intraday margin call to the CDS Clearing Member for a sum sufficient to reduce the level of Intraday Risk Limit erosion back to 0%.

Additional Changes. The Risk Policy Amendments contains certain other clarifications and enhancements. Certain clarifications are made in the CDS Risk Policy with respect to wrong way risk requirements. The policy has also been revised to clarify that the currency specific initial margin requirements must cover at least the specific and general wrong way risk components of the initial margin requirement for the relevant currency. The description of the Clearing House's Monte Carlo model has been revised to clarify that model parameters used are the same as those used in the credit spread model. The CDS Risk Policy has been revised to address in further detail management and governance oversight over the policy.

Compliance with the Act and Commission 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*. As described herein, the Risk Policy Amendments are designed to enhance the margin and guaranty fund models applicable to CDS Contracts and more accurately account for certain risks presented by such contracts. The amendments also improve the allocation of guaranty fund requirements across Clearing Members and the stability of guaranty fund requirements. The changes will thus ensure that the Clearing House maintains sufficient margin and guaranty fund financial resources to support CDS Clearing and maintain clearinghouse operations in the event of a default with respect to a CDS Clearing Member. In ICE Clear Europe's view, the amendments are therefore consistent with the requirements of Core Principle B and Commission Rule 39.11.

- *Risk Management*. The Risk Policy Amendments are designed to enhance relevant risk policies and margin and guaranty fund models applicable to CDS Contracts. The amendments impose more conservative initial margin requirements and in general tailor CDS margin and guaranty fund requirements more closely to the specific risks presented by cleared CDS Contracts. In particular, the amendments strengthen the CDS margin model by devolatilizing returns, limiting procyclicality, improving recovery rate sensitivity requirements and enhancing liquidity and concentration charges, among other changes. The changes also are intended to improve intraday margin call procedures for CDS Contracts. ICE Clear Europe believes that the

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amendments will facilitate risk management by the Clearing House for CDS Contracts, in furtherance of the requirements of Core Principle D and Commission Rule 39.13.

As set forth herein, the amendments consist of revisions to the CDS Risk Policy and CDS Risk Model Description. ICE Clear Europe has requested confidential treatment with respect to the revised CDS Risk Policy and CDS Risk Model Description, which have been submitted concurrently with this self-certification.

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 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, Dee Blake, Director of Regulation, at dee.blake@theice.com or +44 20 7065 7752 or Paul Swann, President & Managing Director, at paul.swann@theice.com or +44 20 7065 7700.

Very truly yours,

Patrick Davis
Head of Legal and Company Secretary

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