ICE CLEAR EUROPE

August 30, 2019

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 – Treasury Documents

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, its new Treasury and Banking Services Policy, new Investment Management Procedures and Liquidity Management Procedures and revised Unsecured Credit Limits Procedures (collectively the "Treasury Documents")[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 is adopting the new Treasury Documents in order to:

- simplify and streamline the documentation;
- remove inaccuracies and unused elements;
- remove elements that are documented or managed elsewhere;
- better separate between policy-level documentation (Policies) and implementation-level documentation (Procedures); and
- improve operational flexibility.

The Treasury Documents replace the Clearing House's existing Liquidity Risk Management Framework, Liquidity Plan, Investment Management Policy and

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

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Approved Financial Institutions Policy (the "Existing Documents"). Generally, other than certain additional liquidity review procedures as discussed below, the changes do not alter the existing substantive treasury and banking practices of the Clearing House. Broadly, the amendments combine the high level policy elements of the Existing Documents into the Treasury and Banking Services Policy. The supporting detail for the policy would be in the Investment Management Procedures, Liquidity Management Procedures and Unsecured Credit Limits Procedures (the "Procedures Documents"). Following adoption of the Treasury Documents, the Existing Documents will be retired.

<u>Treasury and Banking Services Policy</u>

The Treasury and Banking Services Policy (the "Policy") sets out the overall principles applied to the ICE Clear Europe cash and collateral management functions for Clearing Member ("CM") assets. The Treasury and Banking Services Policy replaces the existing Liquidity Risk Management Framework and contains policy-level information relating to liquidity risk management and investment management.

Treasury and Banking Services. Under the Policy, the treasury and banking services ("TBS") department is responsible for cash and collateral management functions for CM assets including relating to liquidity and cash margin investment. These functions are subject to applicable regulations and the Rules and Procedures, particularly the Finance Procedures. The Policy further outlines certain procedures relating to initial margin ("IM"), guaranty fund ("GF") contributions and variation margin ("VM") and the manner in which CMs cover these liabilities.

Cash Management. The Policy addresses the manner in which ICE Clear Europe transfers cash in the relevant currencies intraday through an Assured Payment System ("APS") into its 'concentration banks' and invests or secures such cash at end of day. ICE Clear Europe uses multiple APS banks which are approved financial institutions that have committed to meet certain technical and operational requirements. Approved financial institutions are financial service providers that have been approved by the Credit Risk team and meet eligibility and monitoring criteria set out in the Unsecured Credit Limits Procedures.

Liquidity Risk. The Policy describes the sources of liquidity risks and, at a high level, how liquidity shortfalls may be addressed. It further sets out ICE Clear Europe's liquidity risk management objective to maintain sufficient liquid resources in all relevant currencies to meet its payment obligations as they come due and its strategy to achieve this objective. Its strategy entails structuring and sequencing its cash flows to minimize liquidity risks, monitoring intraday cash inflows and outflows to ensure payments are met, and running daily liquidity stress tests ("LSTs").

As set out in the Policy, ICE Clear Europe runs daily liquidity monitoring and stress testing to: measure and monitor its liquidity position on an ongoing basis and assess its potential immediate and future liquidity needs across a range of extreme but plausible market scenarios. The LSTs are set out in the LST model documentation and are reviewed periodically as set out in the Liquidity Management Procedures. Models underpinning the LSTs will be reviewed in accordance with ICE Clear Europe's Model Risk Governance Framework.

Investment of Cash. The Policy sets out ICE Clear Europe's investment management objective, which is to safeguard the principal of its CMs' cash, maintain sufficient liquidity to cover its payment obligations and obtain a reasonable rate of return. Its related strategy is to: (i) manage its investment portfolio to ensure it has sufficient liquidity, (ii) rebalance its investment portfolio as a result of the LSTs and available liquidity to ensure enough cash is available to meet daily payment obligations; and (iii) invest or secure cash after the relevant deadline has passed for CMs to withdraw or exchange excess cash. The Policy sets out the criteria to determine whether investment instruments are acceptable, including requiring: (i) that the market for the instruments have sufficient price history and be sufficiently liquid and transparent; and (ii) that the instrument not be issued by a CM or entity that is part of the same group as a CM and not be issued by a CCP or entity providing services critical to ICE Clear Europe's functioning. The Policy further requires that investments be in sufficiently liquid currencies, diversified across counterparties, subject to credit criteria and, with respect to reverse repo collateral, subject to suitable haircuts. Parties and employees involved in the investment process must refrain from conflicts of interest and ICE Clear Europe must keep appropriate records.

Collateral Management. Pursuant to the Policy, CMs may substitute cash covering IM or GF requirements with collateral or cash in a different currency, subject to constraints set out in the ICE Clear Europe Finance Procedures. Whenever practicable, ICE Clear Europe holds accounts with central securities depositories ("CSDs"). Assets of individual CMs and, where appropriate, clients with individually segregated assets, are required to be readily identifiable in ICE Clear Europe's systems.

Governance. The Policy also addresses procedures for ensuring that Treasury Documents remain up-to-date and are reviewed in accordance with ICE Clear Europe's governance processes, as well as for handling exceptions, material breaches and unapproved deviations.

<u>Liquidity Management Procedures</u>

Amendments

Pursuant to the amendments, the Liquidity Management Procedures replace the current Liquidity Plan. The procedures provide a number of improvements over existing liquidity risk management practices and in particular address the issues described below.

- Pursuant to the amendments, a haircut will be applied to the liquidation value of securities owned outright as part of the LSTs.
- ICE Clear Europe will more clearly and concisely document its liquidity strategy including, a clear explanation of how it manages its so-called "cover 2" requirements. Further, the LST scenarios would no longer be detailed in the Liquidity Management Procedures but would be moved to LST model documentation that can be updated more flexibly as needed.

- The amendments clarify the distinction between liquidity tools used to address a technical obstacle to making payments and those used to address a default or investment loss.
- Currencies will no longer be distinguished as material or non-material, and instead ICE Clear Europe would look to the size of the relevant obligation for LST purposes.
- The Liquidity Management Procedures explicitly document ICE Clear Europe's approach to reviewing scenarios, assumptions and parameters underlying its LSTs.
- The Liquidity Management Procedures address settlements and deliveries in more detail including how this is additive to defaulting member exposure and how this risk is managed.
- The Liquidity Management Procedures explicitly document periodic reviews on a monthly basis, including consideration of emerging risks.
- The Liquidity Management Procedures establish and document a process for formal governance review and challenge of the assumptions for the hypothetical LST scenarios (e.g., systemic or market infrastructure scenarios), with a link to emerging risks.
- The cover 1 liquidity stress scenario to meet certain regulatory requirements will also be referenced in the Liquidity Management Procedures and documented in the LST Model Documentation.
- The procedures recognize that the ICE Clear Europe Board has determined that certain 'other prearranged funding arrangements' are highly reliable even in extreme but plausible market conditions.
- The procedures memorialize the process of conducting comprehensive periodic reviews to evaluate LSTs and stress scenarios.

Summary of Other Aspects of Liquidity Management Procedures

The Liquidity Management Procedures generally set out how ICE Clear Europe addresses:

- Monitoring and management of liquidity risks, liquidity needs and liquidity resources; and
- Access to liquidity resources, including in case of liquidity shortfalls.

The procedures would be structured to address:

- ICE Clear Europe's payment obligations;
- Management and monitoring of ICE Clear Europe's liquidity needs and maintenance of sufficient liquid resources;
- Daily assessment and valuation of liquid assets;
- Sources and mitigations of liquidity risk; timescales of liquid resources;
- Substitution of cash with non-cash collateral and withdrawal of excess margin by CMs;
- Liquidity shortfalls;
- Replenishment of liquidity in stress events;
- Periodic reviews of liquidity stress tests and liquidity providers; and
- Governance, breach management and exception handling (in the same manner as under the Policy).

Payment Obligations. This section of the procedures sets out the sources of payment obligations relevant to liquidity management, which are: (i) paying VM to those with positive P&L on their trades, (ii) paying delivery or settlement monies when trades deliver or settle; and (iii) returning surplus IM or other margin to individual CMs. ICE Clear Europe would only have a liquidity need not covered in the ordinary course where there has been a firm default or a technical issue at a financial services provider. The procedures explain the various structural arrangements that ICE Clear Europe has in place to minimize liquidity risk.

Management and Monitoring of Liquidity Needs. The procedures reflect that ICE Clear Europe runs a range of LSTs each day as set out in the LST model documentation, which covers CM default scenarios as well as defaults of financial service providers and defaults with other operational outflows. The Clearing Risk team develops market scenarios and calculates stress losses to set the required levels of IM and GF for CMs and accounts which the TBS department then aggregates across different operational scenarios to set the level of liquid resources ICE Clear Europe must maintain. Potential investment losses are also calculated should the defaulting CMs also be investment counterparties, as well as cash outflows due to deliveries and settlements. Throughout the day, the TBS department monitors outstanding payment requests to identify failures which could lead to default using exception-based monitoring tools, as well as the current level of available liquid resources compared to the level needed within currency and maturity buckets.

Sources and Mitigation of Liquidity Risk. The procedures list specific sources of default liquidity risk, and the means through which ICE Clear Europe generally manages such risks.

Timescale of Liquidity Resources. The procedures note that for liquidity management monitoring, ICE Clear Europe only includes resources that can be drawn upon on a same day basis, including cash, investments maturing that day, sovereigns with different maturities that can be liquidated that day, highly reliable uncommitted operating lines and committed repo lines.

Liquidity Shortfalls. The procedures address how in a default situation, liquidity is generated through the default management waterfall and ICE Clear Europe may use its existing pool of cash first to cover payment obligations as this may be more readily available. In a liquidity shortfall situation due to a technical issue, ICE Clear Europe can use its uncommitted and committed lines or liquidate non-cash collateral.

Replenishment of Liquidity in Stress Events. The procedures reflect that with respect to replenishment, provided losses are covered by the default waterfall: (i) if the losses were covered by the margin and GF contribution of the defaulting CM, there is no need for replenishment, and (ii) if part of the GFs of the other CMs or ICE Clear Europe's GF contribution were used, then after contribution requirements are reassessed, they will be replenished as set out in the Rules. Where additional liquidity is required due to a technical issue, it will automatically be remedied once the issue is resolved as it involves no overall reduction in liquidity resources.

Liquidity Stress Tests. The LSTs assess the impact on sources of liquidity and liquidity exposures in both currency and time in a broad range of market and operational scenarios. To assess them, the TBS, Clearing Risk and Risk Oversight departments meet monthly to analyze and discuss: whether to include any new or emerging risks in the stress tests, the adequacy, assumptions and parameters of LST scenarios, the adequacy of stress test inputs, acceptance of current LST scenario calibrations, performance of liquidity providers, annual due diligence reviews of liquidity providers to assess their ability to perform their role as such, and annual testing of sources of liquidity. In stressed market conditions, the TBS, Clearing Risk and Risk Oversight departments will meet more frequently than monthly to ensure LSTs and stress scenarios are fit for purpose. The above analysis of LSTs will be periodically reported to a Board-level committee.

Investment Management Procedures

Pursuant to the amendments, the Investment Management Procedures contain the procedures-level information from the current Investment Management Policy, setting out the permitted investments when investing or securing cash received from CMs either as GF contributions, IM or other types of margin. The procedures also set out constraints on these investments, including concentration limits, credit ratings and maturity limits and any additional considerations in times of insufficient market supply of approved investments. The procedures set out the investment management objective and investment currencies (EUR, GDP, and USD).

With respect to authorized investments in times of normal supply, pursuant to the procedures: (i) investments may only be made with approved financial institutions; (ii) at least 50% of the portfolio in each currency should be invested in overnight reverse repurchase agreements; (iii) non-overnight investments should have a variety of maturity dates; (iv) customer funds of FCM/BD Clearing Members would be required to be segregated from those of other CMs, to be held in permitted depositories for such customer funds (consistent with applicable regulations) and to be invested only in overnight reverse repurchase agreements and direct purchases of US sovereign obligations with permitted counterparties for such transactions under applicable regulations; and (v) purchased securities must be held until maturity to minimize market risk impact. The procedures contain a table setting out the authorized instruments, concentration limits, maximum maturity and minimum credit ratings or allowed entities. The TBS department monitors adherence to the investment criteria.

The procedures set out additional considerations for reverse repurchase agreements requiring: (i) at least four investment counterparties in each currency; (ii) consideration by the Head of the TBS department, or their delegate, in the event of a counterparty downgrade, as to whether it may be more prudent to liquidate or hold a trade until maturity; (iii) deeming repurchase agreements to have a maturity equal to the schedule repurchase date of the underlying securities, or where the agreement is subject to a demand, the applicable notice period; and (iv) collection of only certain collateral deemed acceptable and subject to a predetermined haircut.

In times of insufficient market supply, US government agency securities and supranational obligations are also acceptable for investment and repurchase agreement collateral. Further, ICE Clear Europe would no longer need to invest at least 50% in overnight repurchase agreements and concentration limits would no longer apply. In periods of lower overnight supply investments should be allocated to other investment types according to the order of preference set out in the procedures.

Breaches of concentration limits are escalated to the Risk Oversight Department and the Compliance team as well as reported to relevant regulators through regular reports. In such cases, the investment portfolio would be rebalanced to return within the concentration limits. The TBS department, in conjunction with the Risk Oversight Department and Clearing Risk team, will review the concentration limits every quarter. The procedures also address procedure governance, breach management and exception handling (in the same manner as under the Policy).

Unsecured Credit Limits Procedures

The revised Unsecured Credit Limits Procedures support aspects of the Policy, the Investment Management Procedures and the Counterparty Rating Systems. The amendments to the Unsecured Credit Limits Procedures address the eligibility requirements for counterparties and monitoring procedures for unsecured exposures.

Eligibility Methodology. The amendments to the procedures require that in order for a legal entity to be eligible as a counterparty or financial service provider, it must be regulated by a competent authority and comply with the applicable minimum external rating and maximum ICE Clear Europe rating for such entity type as set out in the procedures. If the entity is a repo provider, it would need to be organized in the US or EU countries satisfying the minimum external rating.

Monitoring. The procedures require daily monitoring of overnight unsecured exposure at the Legal Entity level. Subject to data availability and technology, overnight unsecured exposures relative to unsecured limits will also be monitored at least weekly. Other exposures and aggregation with other Legal Entities of the same group of companies will be monitored at least monthly. The procedures also address procedure governance, breach management and exception handling (in the same manner as under the Policy).

Compliance with the Act and CFTC Regulations

The amendments are potentially relevant to the following core principle: (B) Financial Resources, (D) Risk Management, (E) Settlement Procedures and (F) Treatment of Funds and the applicable regulations of the Commission thereunder.

- *Financial Resources.* The Treasury Documents are designed to enable the Clearing House to measure its liquidity risks ensure that it holds sufficient liquid resources to meet its settlement obligations, consistent with regulatory requirements. Among other matters, the Treasury Documents document the Clearing House's procedures for ensuring that it holds liquid resources in the relevant currencies to effect same-day settlement payment obligations under a wide range of scenarios. The Treasury Documents also provide for the use of LST scenarios to test the adequacy of liquidity resources in a range of clearing member default and other stress scenarios, including the default of at least the two CMs with the largest exposure to ICE Clear Europe, in extreme but plausible market conditions, together with defaults of financial service providers and other operational outflows. The Treasury Documents set out requirements with respect to the types of financial resources that ICE Clear Europe may hold to meet liquidity requirements. In ICE Clear Europe's view, the Treasury Documents thus enhance and consolidate ICE Clear Europe's liquidity resource management procedures and are consistent with the requirements of Core Principle B and Commission Rule 39.11.

- *Risk Management.* The Treasury Documents are intended to consolidate and clarify certain existing policies and procedures relating to treasury operations and risk management. The amendments will generally strengthen ICE Clear Europe's risk management framework for managing liquidity risks, including by setting out how such risks are monitored and managed, the procedures to address liquidity shortfalls from clearing member default losses as well as other potential business losses, and procedures for recovery should other mechanisms to address liquidity resource shortfalls fail. The revised procedures also provide for maintaining FX lines and repo facilities to obtain cash from securities positions for use if necessary, and the use of haircuts for non-cash collateral or cash in different currencies in calculating available liquid resources. In ICE Clear Europe's view, the Treasury Documents will enhance its overall treasury and liquidity risk management, and are therefore consistent with the requirements of Core Principle D and Commission Rule 39.13.

- *Settlement Procedures.* The Treasury Documents facilitate ICE Clear Europe's ability to limit its exposure to settlement risks. As set out in the Treasury Documents, ICE Clear Europe uses multiple APS banks that have committed to meet certain technical and operational requirements. APS banks must be financial service providers that have been approved by the Clearing House credit risk team and meet eligibility, credit limit and monitoring criteria set out in the Unsecured Credit Limits Procedures. In ICE Clear Europe's view, the Treasury Documents strengthen ICE Clear Europe's settlement procedures and are consistent with the requirements of Core Principle E and Commission Rule 39.14.

- *Treatment of Funds.* The Investment Management Procedures set out permitted investments for cash received from CMs and set out constraints on such investments, including concentration limits, credit ratings and maturity limits. These requirements enable the Clearing House to invest clearing member assets in a manner that minimizes credit, market and liquidity risks. In ICE Clear Europe's view, the Treasury Documents and, in particular, the Investment Management Procedures, are therefore consistent with the requirements of Core Principle F and Commission Rule 39.15.

As set forth herein, the amendments consist of the new Treasury Documents. ICE Clear Europe has requested confidential treatment with respect to these documents, 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.

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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 or +44 20 7429 7127.

Very truly yours,

Giulia Honorati

Giulia Honorati
Manager Regulation & Compliance