



November 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 – F&O Guaranty Fund Policy

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, certain amendments to its F&O Guaranty Fund Policy (the “Policy”) and related amendments to the ICE Clear Europe Clearing Rules and Finance Procedures.¹ 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. This submission amends and restates in its entirety the Rule 40.6 submission by ICEU dated October 30, 2018.

Concise Explanation and Analysis

ICE Clear Europe is generally amending the Policy to address the following aspects of the F&O Guaranty Fund: changing the calculation methodology for F&O Clearing Member contributions to incorporate an uncollateralized stress loss factor (in addition to a factor based on the intraday original margin requirement), in line with the Clearing House principle of ‘polluter pays’; specifying the minimum size of the F&O Guaranty Fund at 2% of the amount of F&O original margin; and changing the review cycle for the F&O Guaranty Fund level from quarterly to every two months, in line

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

with the F&O Risk Committee meeting schedule. Various drafting clarifications and improvements have also been made, and certain descriptions in the Policy that duplicate or describe provisions in other Rules, ICE Clear Europe Procedures and policies have been removed as unnecessary. ICE Clear Europe is also making corresponding amendments to the Rules and Finance Procedures to accommodate the changes being made to the Policy. Set out below are further details regarding the specific proposed amendments.

ICE Clear Europe is proposing to amend its description of the purposes and objectives of the Policy to include a broader statement that the Policy defines how and how often the F&O Guaranty Fund is sized, how Clearing Member contributions are apportioned and the sizing frequency, as well as that the Policy also defines stress margin and its uses, eligible assets covering F&O Guaranty Fund requirement liabilities, the default sequence and powers of assessment. Certain descriptions of the use of F&O Guaranty Fund that summarize provisions of the Rules have been removed as unnecessary, and a cross reference to the Rules has been added.

The provisions of the Policy relating to the sizing of the F&O Guaranty Fund would be amended to remove details found in other Clearing House policies and documentation, including the methodology used to calculate and allocate the additional guaranty fund apportionment (“AGA”) between the energy and financials & softs segments of the F&O Guaranty Fund. Detail regarding the review of the validity of the stress testing scenario(s) is being removed, as it is covered by other existing stress-testing policies. These changes do not represent a modification to ICE Clear Europe’s current practices.

The amendments to the Policy also reflect that the frequency of certain reviews will be changed from a quarterly basis to each time the F&O Risk Committee meets (which is typically every two months). Corresponding amendments to the Rules specify that the Guaranty Fund Period will be set pursuant to the Finance Procedures, instead of being a fixed three month period. The amendments to the Finance Procedures state that the start and end dates of Guaranty Fund Periods will be communicated to F&O Clearing Members.

The amendments change the deadline for Clearing Members to deposit additional funds to comply with an increased F&O Guaranty Fund requirement. Specifically, as amended in section 6.1(i)(iii) of the Finance Procedures and as set out in the amended Policy, the deadline has been reduced from ten business days to five business days.

The proposed amendments define the minimum overall F&O Guaranty Fund size as 2% of the total F&O original margin requirement (averaged over the review period), as compared to the current minimum which is based on the fixed ICE Clear Europe initial contribution to the F&O Guaranty Fund.

The provisions of the Policy relating to extraordinary reviews of the F&O Guaranty Fund have been simplified in light of other Clearing House policies and documentation. As revised, the amber and red limits defined as part of the Board Risk Appetite will potentially trigger an extraordinary review of the F&O Guaranty Fund which would be communicated via the standard process for review.

The requirements of the Policy regarding information presented to the F&O Risk Committee are also being simplified.

The provisions of the Policy relating to recommendations as to changes in the overall level of the F&O Guaranty Fund have been condensed and simplified. The revised Policy identifies several factors on which the Clearing House will base its recommendations on the level of the Fund (including the level of uncollateralized losses as compared to the F&O Guaranty Fund or relevant segments and the level of stress margin called for relevant F&O product categories), rather than describing specific circumstances under which a 'no change' recommendation or a recommendation to increase a Fund segment will be made. The Clearing House believes the more flexible approach better takes into account the range of factors that may warrant a change in the F&O Guaranty Fund level. In any case, as under the current Policy, a full explanation of the conclusions and related data is to be presented to the F&O Risk Committee and Board Risk Committee.

As noted above, the amendments alter the calculation of F&O Clearing Member contributions to take into account potential uncollateralized, or stress, loss as well as the maximum intraday original margin requirement. The governing principle with respect to this determination is that each Clearing Member's contribution to each of the Fund segments should reflect its relative share of clearing activity as well as its relative share of uncollateralized loss. Under the revised approach, subject to minimum contribution requirements set out in the Policy, an F&O Clearing Member's relative share of the F&O Guaranty Fund requirement will be based 40% on its maximum intraday original margin requirement and 60% on its uncollateralized loss. This will be recalculated at each review (instead of on a quarterly cycle). This two factor contribution model is intended to offer a balanced contribution taking into account clearing activity and stress results.

The proposed amendments to the Policy also specify the minimum fund contribution for an F&O Clearing Member to be the larger of USD 1 million or the calculated member's contribution under the revised methodology. The corresponding proposed amendments to section 14.1(b) of the Finance Procedures accommodate this change, by specifying that the Clearing House will establish from time to time a minimum fund contribution for an F&O Clearing Member based on a methodology adopted by the Clearing House, of not less than USD 1 million.

The proposed amendments also remove a description of the manner in which a drawdown of the F&O Guaranty Fund is made across the different fund segments, as that is covered in greater detail in the existing Rules.

Finally, references to quarterly reviews of stress test results are being replaced with references to general review cycles throughout the Policy and an appendix with an example of a stress margin request is being deleted as unnecessary.

Various conforming and clarifying changes have been made throughout the Policy.

Compliance with the Act and CFTC Regulations

The 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 amendments are designed to enhance the Clearing House's financial resources through revisions to the F&O Guaranty Fund allocation methodology to take into account both original margin requirements and potential stress losses that may exceed normal margin levels. The amendments also clarify the minimum size of the F&O Guaranty Fund, in a manner tied to the original margin requirements and thus the overall level of F&O clearing activity. The amendments shorten the deadline under which F&O Clearing Members must provide additional F&O Guaranty Fund contributions when required. The Clearing House believes that these changes will more appropriately allocate F&O Guaranty Fund Contributions among F&O Clearing Members, and help ensure that the F&O Guaranty Fund, together with other financial resources, is sufficient to enable the Clearing House to cover losses from a wide range of foreseeable stress scenarios. As a result, in ICE Clear Europe's view, the amendments are consistent with the requirements of Core Principle B and Commission Rule 39.11.
- *Risk Management.* As noted above, the amendments are intended to enhance the Clearing House's approach to allocating F&O Guaranty Fund requirements by taking into account both clearing activity (as indicated through original margin levels) and potential stress losses in extreme but plausible market conditions. The revisions also enhance Clearing House risk management through review by the F&O Risk Committee of daily stress testing results showing at least the first and second largest uncollateralized losses and details of the stress scenario driving the largest exposures. In ICE Clear Europe's view, the amendments will thus enable it to better manage default risks through a more robust procedure for matching F&O Guaranty Fund contributions to the risks presented by F&O Clearing Members. The amendments are therefore consistent with the risk management requirements of Core Principle D and Commission Rule 39.13.

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

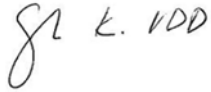
ICE Clear Europe hereby certifies that the amendments comply with the Act and the Commission's regulations thereunder.

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 carolyn.vandendaelen@theice.com or +44 20 7429 4515.

Very truly yours,

Handwritten signature in black ink, appearing to read 'C. VDD'.

Carolyn Van den Daelen
Head of Regulation & Compliance