



BY ELECTRONIC TRANSMISSION

Submission No. 20-50
June 5, 2020

Mr. Christopher J. Kirkpatrick
Secretary of the Commission
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Amendments to Rules 18.D.048 and 18.D.049 (California Carbon Allowance Auction Contracts) -- Submission Pursuant to Section 5c(c)(1) of the Act and Regulation 40.6(a)

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (the “Act”) and Commodity Futures Trading Commission (“Commission”) Regulation 40.6(a), ICE Futures U.S., Inc. (“IFUS” or “Exchange”) hereby self-certifies the amendments to Rules 18.D. 048 and 049 set forth in Exhibit A. As discussed below, the amendments clarify certain aspects of two of the Exchange’s emissions contracts --the California Carbon Allowance Current Auction Clearing Price Contract (“ACP”) and the Carbon Allowance Advance Auction Clearing Price Contract (“ACA”) to provide clarity on how the Exchange would determine the last trading day and the price for final settlement in the event that the underlying reference auction is cancelled or significantly delayed.

BACKGROUND ON EXCHANGE CARBON EMISSION AUCTION CONTRACTS

The Exchange’s ACP and ACA contracts (the “Auction Contracts”) are based on a carbon emission allowance auction that is sponsored by the California Air Resources Board (“CARB”) and the Quebec MELCC (the “Joint Auction”). There are four Joint Auctions held in February, May, August and November and an auction clearing price is published following each auction pursuant to a published calendar of the auction operators. The procedures governing the Joint Auction include the establishment of an annual auction reserve price which serves as a floor below which the published auction clearing price cannot be set during the calendar year to which that reserve price is applicable (the “Reserve Price”). The Exchange lists Auction Contracts in the same contract months and, at expiration, each Auction Contract is settled through physical delivery of an Exchange futures contract that is based on the same underlying carbon emission allowances as auctioned in the Joint Auction. For example, the holders of long/short positions in the May 20 ACP received a long/short futures positions in the next listed delivery month of the Exchange’s California Carbon Allowance Futures Contract (“CCA”), which was the June 20 futures contract.

Participants trade the Auction Contracts at a +/- differential to the relevant Joint Auction publication price--which is not yet known at the time of trading. When an Auction Contract expires, the long/short position in the corresponding CCA will be delivered at the published, Joint Auction clearing

price, and the value of the traded differential will be paid or received by the position holder through the clearing organization. In this manner, the Auction Contracts allow participants to buy and sell the relevant Exchange CCA at the Joint Auction clearing price. This structure provides an efficient mechanism for carbon emissions producers/users in the California/Quebec regime to hedge their exposure to Joint Auction pricing, which is the primary cash market utilized to trade allowances in that region.

PROPOSED AMENDMENTS

RESERVE PRICE AND FINAL SETTLEMENT PRICE

During the peak of the COVID pandemic there was market concern that the May20 auction might be cancelled and speculation about how the Exchange would settle the Auction Contracts if that occurred. The pertinent Exchange Rule currently provides that if an auction is cancelled and no auction price is published, the Exchange will set an alternate settlement price, but the Rule does not provide further specifics and does not reference the Reserve Price. The Exchange issued a notice on March 25th stating that if the May auction was cancelled and no auction prices published, the Exchange would settle the May20 Auction Contracts using the Exchange's daily settlement price for the CCA futures contract that was the deliverable instrument against each Auction Contract on the scheduled Joint Auction Report publication day. [https://www.theice.com/publicdocs/futures_us/exchange_notices/ICE Futures US Settlement of K20 ACP and ACA 2020325.pdf](https://www.theice.com/publicdocs/futures_us/exchange_notices/ICE_Futures_US_Settlement_of_K20_ACP_and_ACA_2020325.pdf) The Exchange believed, at the time, that the price of the relevant underlying CCA futures contract provided the best available benchmark for settlement of the May20 Auction Contracts if the auction was not held. ¹.

Based on further discussions with market participants and observations of the +/- premiums in relation to the May 20 Auction Contracts through their normal expiration, the Exchange believes that market participants enter into the Auction Contracts with the expectation that the minimum price at expiry will be the Reserve Price, whether or not the auction is held. The Exchange therefore is amending both Auction Contracts to provide that if no auction price is published due to cancellation or failure of the auction, or a delay beyond last trading day of the deliverable CCA contract, the price used for final settlement of the Auction Contract will be the greater of the Reserve Price and the price of the relevant CCA futures contract on the last trading day of the Auction Contract. This preserves the Reserve Price as a floor while allowing a higher price to be recognized where the deliverable futures contract is trading above the floor

LAST TRADING DAY

The Exchange is also amending the last trading day provisions in both Auction Contract rules to give the Exchange the flexibility to extend the last trading day for an expiring Auction Contract in the event that the auction, or publication of the Joint Auction clearing price, is temporarily delayed. The amendment allows the Exchange to extend trading in an expiring Auction Contract through the last trading day for the relevant CCA futures contract that is deliverable at expiration. For example, had the auction operators announced that the Joint Auction Report that was scheduled for publication on May 28th was delayed to a specific date in June that was prior to the last trading day of the June 20 CCA futures contract, the Exchange could extend the last trading day of the May 20 Auction Contract to the delayed June date. If the Joint Auction Report date was extended to a date beyond the last trading day for the June CCA contract, final settlement of the May20 Auction Contract would be determined as if the Joint Auction had been cancelled or had failed to produce a published price.

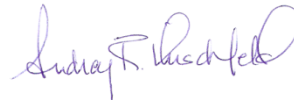
¹ The May auction was in fact conducted and the Auction Contracts were settled using the prices reported by the auction operators on May 28th.

In addition, the amendment provides the method for determining the last trading day for the Auction Contract if the Joint Auction price is not published due to cancellation of the auction, or is delayed beyond the last trading day of the CCA futures contract month. The last trading day will depend on the timing of any notice issued by the auction operators advising that the auction will not proceed as originally scheduled. If that notice is issued at any time through the 15th of a calendar month, the last trading day for the Auction Contract will be the last Business Day of that calendar month; if the auction notice is issued after the 15th day of a month, the last trading day for the Auction Contract will be the 10th Business Day of the next calendar month. This will allow market participants sufficient time to adjust their positions in light of the announcement.

The amendments were discussed in principle with various market participants who supported the Exchange providing clarity to these aspects of the Rules. One participant did not believe the Rules should be amended because the participant viewed the May20 Notice as indicative of the manner in which the Exchange would handle a cancelled auction involving other contract months and had taken market positions based on that assumption. The Exchange certifies that the amendments comply with the requirements of the Act and the regulations promulgated thereunder, in particular Core Principles 3, 4 and 7 and related regulations. As discussed above, the amendments will benefit market participants by providing clarity to the Exchange rules governing last trading day and final settlement prices in the unlikely event that an auction is cancelled or significantly delayed. In addition, the amendments give the Exchange the most flexibility to extend the last trading day so that it coincides with the publication date of the Joint Auction Report. This allows the Auction Contract to be settled using the intended reference price. The Exchange certifies that, concurrent with this filing, a copy of this submission was posted on the Exchange's website at <https://www.theice.com/futures-us/regulation#rule-filings>.

If you have any questions or need further information, please contact me at 212-748-4083 or at audrey.hirschfeld@theice.com.

Sincerely,

A handwritten signature in blue ink that reads "Audrey R. Hirschfeld". The signature is written in a cursive, flowing style.

Audrey R. Hirschfeld
SVP and General Counsel

Enc.

EXHIBIT A

18.D.048 California Carbon Allowance Current Auction Clearing Price

Contract Description: The California Carbon Allowance Current Auction Clearing Price contract is a cleared market for California Carbon Allowance (CCA) futures contracts at a premium or discount to the Current Auction Settlement Price as published by the California Air Resources Board.

Contract Symbol: ACP

Settlement Method: 1 ACP contract expires into an eligible California Carbon Allowances futures contract

Contract Size: 1 California Carbon Allowances futures contract

Currency: USD

Minimum Price Fluctuation: The price quotation convention shall be One cent (\$0.01) per California Carbon Allowance; Price may be positive or negative; minimum price fluctuation may vary by trade type. Please see Table in Resolution 1 to this Chapter 18.

Listing Cycle: The Exchange may list contracts for trade on the standard listing cycle of February, May, August and November out two years. The Exchange may list any other calendar month contract sets off the standard-cycle listing schedule.

Last Trading Day: Trading shall cease at 3:00 p.m. (EPT) on the day on which the Joint Auction Summary Results Report (“Report”) for the specified auction is scheduled to be released. Trading may be extended until 3:00 p.m. of the day that is the Last Trading Day for the eligible CCA futures contract (defined below) if the release of the Report is delayed for any reason. In the event that no ~~Joint Auction Summary Results~~ Report is ~~[scheduled to be]~~ released due to cancellation of the auction, or release of the Report is delayed beyond the extension of trading permitted by the preceding sentence of this paragraph, the Last Trading Day will be determined by the Exchange as follows: (a) if notice of the auction cancellation or delay is issued by the California Air Resources Board on or prior to the 15th day of a calendar month, then trading shall cease at 3:00 p.m. (EPT) on the last Business Day of such month and (b) if such notice is given by the California Air Resources Board after the 15th calendar day of a month, then trading shall cease at 3:00 p.m. (EPT) on the tenth (10th) Business Day of the next calendar month, determined by the Exchange in accordance with its Rules.

Deliverable Instruments: All parties with open positions at expiry will establish equivalent long or short futures positions in the eligible CCA futures contract on the Final Settlement Day. The eligible CCA futures contract is the futures contract with a vintage equal to the current calendar year and an expiry month following the month the auction is held.

Open positions in the eligible CCA futures contract shall be priced at the respective Current Auction Settlement Price as published by the California Air Resources Board in the ~~[Joint Auction Summary Results]~~ Report. In the ~~[instance]~~ event that an auction is cancelled, or the release of the Report is delayed beyond the extension of trading permitted by this Rule, or no Current Auction Settlement Price is published in the Report, an alternative settlement price that is equal to the higher of the applicable Auction Reserve Price published by the California Air Resources Board, and the settlement price of the eligible CCA futures contract on the Final Settlement Day, shall be determined by the Exchange.

Final Settlement Day: Final Settlement Day ~~will be equal to~~ is the day which is the Last Trading Day.

18.D.049 California Carbon Allowance Advance Auction Clearing Price

Contract Description: The California Carbon Allowance Advance Auction Clearing Price contract is a cleared market for California Carbon Allowance (CCA) futures contracts at a premium or discount to the Advance Auction Settlement Price as published by the California Air Resources Board.

Contract Symbol: ACA

Settlement Method: 1 ACA contract expires into an eligible California Carbon Allowances futures contract

Contract Size: 1 California Carbon Allowances futures contract

Currency: USD

Minimum Price Fluctuation: The price quotation convention shall be One cent (\$0.01) per California Carbon Allowance; Price may be positive or negative; minimum price fluctuation may vary by trade type. Please see Table in Resolution 1 to this Chapter 18.

Listing Cycle: The Exchange may list contracts for trade on the standard listing cycle of February, May, August and November out two years. The Exchange may list any other calendar month contract sets off the standard-cycle listing schedule.

Last Trading Day: Trading shall cease at 3:00 p.m. (EPT) on the day on which the Joint Auction Summary Results Report (“Report”) for the specified auction is scheduled to be released. Trading may be extended until 3:00 p.m. of the day that is the Last Trading Day for the eligible CCA futures contract (defined below) if the release of the Report is delayed for any reason. In the event that no [Joint Auction Summary Results] Report is [scheduled to be] released due to cancellation of the auction, or release of the Report is delayed beyond the extension of trading permitted by the preceding sentence of this paragraph, the Last Trading Day will be determined by the Exchange as follows: (a) if notice of the auction cancellation or delay is issued by the California Air Resources Board on or prior to the 15th day of a calendar month, then trading shall cease at 3:00 p.m. (EPT) on the last Business Day of such month and (b) if such notice is given by the California Air Resources Board after the 15th calendar day of a month, then trading shall cease at 3:00 p.m. (EPT) on the tenth (10th) Business Day of the next calendar month, determined by the Exchange in accordance with its Rules.

Deliverable Instruments: All parties with open positions at expiry will establish equivalent long or short futures positions in the eligible CCA futures contract on the Final Settlement Day. The eligible CCA futures contract is the futures contract with a vintage three years advanced from the current calendar year and an expiry month following the month the auction is held.

Open positions in the eligible CCA futures contract shall be priced at the respective Current Auction Settlement Price as published by the California Air Resources Board in the [~~Joint Auction Summary Results~~] Report. In the [~~instance~~] event that an auction is cancelled, or the release of the Report is delayed beyond the extension of trading permitted by this Rule, or no Current Auction Settlement Price is published in the Report, an alternative settlement price that is equal to the higher of the applicable Auction Reserve Price published by the California Air Resources Board, and the settlement price of the eligible CCA futures contract on the Final Settlement Day, shall be determined by the Exchange.

Final Settlement Day: Final Settlement Day will be ~~equal to~~ the day which is the Last Trading Day.