ICE CLEAR EUROPE

September 12, 2017

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 the CDS Risk Policy

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

ICE Clear Europe proposes to adopt amendments to the CDS Risk Policy relating to portfolio margining. The changes discussed herein apply to all cleared credit default swap ("CDS") products. ICE Clear Europe is not otherwise changing its Clearing Rules or Procedures in connection with these amendments.

The amendments are intended to comply with Article 27 of Commission Delegated Regulation (EU) No 153/2013[1] (the "Portfolio Margining Limitation") implementing the European Market Infrastructure Regulation (EMIR).[2] The Portfolio Margining

[1] Commission Delegated Regulation (EU) No 153/2013 dated 23 February 2013.
[2] Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

Limitation requires that where portfolio margining covers multiple different instruments, the amount of margin reduction that the clearing house may offer can be no greater than 80% of the difference between the sum of the margins for each product calculated on an individual basis and the margin calculated based on a estimation of the exposure for the combined portfolio. By contrast, where the margin reduction relates to positions in the same instrument, the clearing house may apply a margin reduction of up to 100% of that difference. The European Securities and Markets Authority ("ESMA"), the competent authority with respect to this requirement under EMIR, has issued an opinion interpreting this requirement in the context of CDS to provide[3] that (i) credit derivatives on different underlying names or indexes (including two series of the same index) should be considered different products; and (ii) credit derivatives on the same underlying name or index with different maturities or coupons may be considered as the same product. The effect of this is to require that credit derivatives on different index series of the same index family be considered different instruments under the Portfolio Margining Limitation and that therefore portfolio margining reductions for such instruments must be limited to 80% of the gross margins.

To implement the Portfolio Margining Limitation, ICE Clear Europe is amending its CDS Risk Policy such that when calculating the spread response charge (which provides portfolio margin reductions across a variety of correlated positions, including positions in different series of the same index), the 99.5% Value-at-Risk ("VaR") Monte Carlo ("MC") benchmark[4] used in the calculation will have a minimum amount equal to 20% of the portfolio gross 99.5% MC VaR requirements. The gross requirement is defined for this purpose as the sum of the requirements at risk factor level for single names (for single-name CDS) and index series level (for index CDS) (i.e., without portfolio margin offsets across such products). ICE Clear Europe is required to implement the Portfolio Margining Limitation by September 30, 2017.

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.

- *Financial Resources*. The amendments are not expected to reduce the clearing house's aggregate default resources, and, as discussed herein, may in some circumstances increase the amount of margin held by ICE Clear Europe in respect of CDS Contracts. As a result, ICE Clear Europe believes that the amendments are consistent with its ability to meet its financial obligations to its clearing members notwithstanding a clearing member default, in accordance with the financial resources requirements of Core Principle B and Commission Rule 39.11.

- *Risk Management*. The amendments ICE Clear Europe are consistent with the risk management requirements of Commission regulations relating to

[3] Section 3.1.2.C of the ESMA Opinion On Portfolio Margining Requirements under Article 27 of Commission Delegated Regulation (EU) No 153/2013 dated 10 April 2017 (the "ESMA Opinion").
[4] The 99.5% VaR MC benchmark serves as a minimum initial margin level.

ICE Clear Europe Limited
Registered in England No.06219884
Registered office: Milton Gate, 60 Chiswell Street, London EC1Y 4SA

margin. The proposed amendments to the CDS Risk Policy represent a more conservative approach to portfolio margin reductions than may be applicable under its existing spread response calculation methodology, because of the 20% floor based on the gross margin requirement without portfolio offsets. The amendments are being made in order to comply with the Portfolio Margin Limitation imposed under EMIR, as set out in the ESMA Opinion, and may in some cases result in higher initial margin requirements for market participants. In any case, ICE Clear Europe believes that the amended requirement (as with the current methodology) represents an appropriate risk-based margin framework to take into account portfolio risk reduction and related portfolio effects in a manner that will continue to enable the clearing house to mitigate the risk of clearing member default. As such, in ICE Clear Europe's view, the amendments are consistent with Core Principle D and Commission Rule 39.13.

As set forth herein, the amendments consist of revisions to the CDS Risk Policy. ICE Clear Europe has requested confidential treatment with respect to the amended 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 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