



December 19, 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:
Collateral and Haircut 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 is amending its Collateral and Haircut Policy (the “Collateral and Haircut Policy”) to incorporate certain changes to the calculation of absolute collateral limits for bonds provided as Permitted Cover by Clearing Members and certain other revisions as described below. The amendments do not involve any changes to the ICE Clear Europe Clearing Rules¹ or Procedures.

The Collateral and Haircut Policy establishes a maximum amount of bonds from an individual issuer that ICE Clear Europe will accept from a Member Group (an “Absolute Limit”). The Absolute Limit is designed to take into account the trading liquidity of the bond, and accordingly the ability of ICE Clear Europe to liquidate the collateral when required. Currently, the underlying data used in the calculation of the Absolute Limit is based on the bi-annual International Capital Market Associate repo survey of market participants (the “ICMA Data”), as a proxy for secondary market trading activity. Under the revised Collateral and Haircut Policy, the Absolute Limit

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

will be determined using actual secondary market trading volume data provided by ICE Data Services (the “IDS Data”). The IDS Data is compiled from a wide range of market data sources for transactions in government and corporate bonds. In certain circumstances where official trading volume data is published from a primary source, such as a governmental or central bank, such data will be used in lieu of the IDS Data. (For example, for bonds issued by Canada and Japan, ICE Clear Europe will utilize data provided by the Bank of Canada and the Japan Securities Dealers Association, respectively, instead of IDS Data.) In either case, the Absolute Limit for each bond issuer and collateral type will be 10% of the average daily volume over the past three months, rounded to the nearest million. ICE Clear Europe believes that the revised approach will provide a more direct and accurate estimation of liquidity than under the current approach, which will facilitate calculation of conservative and appropriate absolute concentration limits.

The revisions also provide that in order to capture price volatility information on a conservative basis, the haircut calculation methodology, which incorporates a historical VaR model, among other factors, will use a two-sided VaR estimation based on the largest absolute returns.

The Collateral and Haircut Policy has also been amended to more clearly take into account the existence of ICE Clear Europe’s committed repo facilities. As under the existing policy, in certain circumstances the Clearing House may permit a Clearing Member to maintain a collateral bond position in excess of normal absolute limits, in reliance on the Clearing House’s ability to obtain cash for any excess securities using the committed repo facility. The amendments clarify that the repo facilities are available at any time there is an intra-day liquidity need, and are not limited to use in case of Clearing Member default. The amendments also note certain particular scenarios in which the clearing risk department may, consistent with the current policy, consider other qualitative and quantitative factors in setting prudent haircuts.

In addition, the Collateral and Haircut Policy has been revised to add certain general provisions, consistent with the approach taken in other ICE Clear Europe policies, addressing overall risk appetite and risk limits in the context of the purposes of the Collateral and Haircut Policy. Certain references in the policy to internal ICE Clear Europe personnel, departments and committees have been updated. The amendments also provide further detail as to the process for annual independent validation and governance oversight of relevant models used to support the Collateral and Haircut Policy, as well as governance and review with respect to the Collateral and Haircut Policy itself.

Compliance with the Act and Commission Regulations

The amendments to the Collateral and Haircut Policy 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 to the Collateral and Haircut Policy adopt a more robust and direct method for obtaining relevant bond trading volume data that is used to determine concentration limits. The amendments

clarify certain other matters relating to the calculation of haircuts and limits. In ICE Clear Europe's view, the amendments will help the clearing house evaluate the liquidity of relevant bonds it accepts as collateral, and thus determine appropriate concentration limits. As such, the amendments will facilitate the clearing house's ability to value appropriately its financial resources and thus meet its financial resources and liquidity requirements under Core Principle B and Commission Rule 39.11.

- *Risk Management.* For similar reasons, the amendments also facilitate clearing house risk management. As noted above, the policy will provide enhanced sources of price data for purposes of evaluating the liquidity of collateral accepted by the clearing house and determining the absolute concentration limits that should apply to such collateral. The amendments also clarify certain qualitative and quantitative factors in setting appropriate limits. The amendments thus facilitate the clearing house's ability to establish appropriate concentration and other limitations for margin assets, in order to ensure its ability to liquidate such assets quickly with minimum adverse price effects. The amendments also facilitate the ongoing review of such limits. As a result, in ICE Clear Europe's view, the amendments are consistent with the requirements of Core Principle D and Commission Rule 39.13.

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

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

ICE Clear Europe has received no substantive opposing views in relation to the 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 or Dee Blake, Director of Regulation, at dee.blake@theice.com or +44 20 7065 7752.

Very truly yours,



Patrick Davis
Head of Legal and Company Secretary

