



April 02, 2024

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 Rule 40.6  
– Amendments to Liquidity and Investment Management Policy and Liquidity  
Management Procedures

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, amendments to its Liquidity and Investment Management Policy (the “Policy”) and Liquidity Management Procedures (the “Procedures”).<sup>1</sup> The amendments will 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 amending its Policy and Procedures with certain updates relating to liquidity risk management, as well as other minor clarifications.

#### Policy

With regard to the use of the Assured Payment System, the amendments will make certain clarifications relating to existing cash management activities under the Clearing House’s investment program.

With respect to general liquidity risk management, the amendments will also add to the list of primary sources of liquidity risk the possibility of substantial margin changes and physical deliveries. The amended Policy notes that to mitigate this risk, ICE Clear Europe will invest a significant amount of the cash into overnight reverse repos or high-quality liquid assets.

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<sup>1</sup> Capitalized terms used but not defined herein have the meanings specified in the Policy and Procedures or, if not defined therein, the ICE Clear Europe Clearing Rules.



The amendments make additional clarifications relating to liquidity shortfalls in a default situation, by referencing the Liquidity Management Procedures in terms of liquidation of assets as discussed below rather than the default waterfall more generally.

Additionally, the amendments will update the description of liquidity stress testing to better reflect the types of scenarios considered, including defaults of individual or pairs of clearing member families under the range of extreme but plausible market scenarios used in credit stress testing and a combination of a default of a clearing member family and a financial service provider. Other conforming changes reflect the retirement of the Liquidity Stress Testing Procedures.

The provisions of the Policy relating to investment of cash would be updated to conform to the Investment Management Procedures. Specifically, the amendments would state explicitly that instruments eligible for investment must have an active outright sale or repurchase agreement market, with a diverse group of buyers and sellers, including in stressed conditions and to which ICE Clear Europe has reliable access. Amendments would also clarify that investments and reverse repo collateral are subject to credit criteria screening to ensure suitability for liquidity risk management.

The amendments also update procedures for ongoing review of the Policy, consistent with similar procedures for other ICE Clear Europe policies. The amendments add procedures for ongoing periodic document review encompassing regulatory compliance, purpose, implementation, use and open items from prior reviews as appropriate. The amendments also address reporting of findings and remediation, as appropriate. The amendments also clarify that changes to the Policy will have to be reviewed in accordance with the Clearing House's governance process.

Non-substantive drafting corrections and clarifications would also be made throughout the Policy.

### Liquidity Management Procedures

The amendments will update the Liquidity Management Procedures to make certain updates and clarifications, including with respect to liquidity stress testing.

The amendments would clarify the discussion around sources of risk to include significant margin changes or excess margin withdrawals exceeding immediately available cash.

The amendments also clarify the discussion of the structural protections used by the Clearing House to minimise liquidity risk to reflect current practices. Specifically, the amendments reflect that the majority of its cash (instead of all of it), is invested in line with applicable cutoffs for the withdrawal of excess cash or collateral exchange of cash. The amendments also clarify that the Clearing House can now request payments via the Clearing Member's contingency bank if the APS bank is unable to perform correctly.

The amendments will also update the daily liquidity timeline, and in particular will clarify that the Clearing House's commercial banking partners (rather than only

investment agents) may advance cash to the Clearing House to expedite payments owed to clearing members. Further non-substantive changes will be made to clarify certain special delivery arrangements with respect to UK Gilts. Amendments would also clarify that the Procedures assume, in the case of a clearing member default, the relevant margin, Clearing House skin in the game and guaranty fund would be sufficient to cover any losses (with cases where this assumption does not hold being addressed in the Recovery Plan).

The sections of the Procedures addressing managing and monitoring liquidity needs and resources will be updated to reflect the retirement of the Liquidity Stress Testing Procedures document.

In the case of liquidity needs arising from technical issues with a financial service provider, the amendments will reflect that the Clearing House may borrow from uncommitted credit lines with commercial bank relationships (and not merely from investment agents) and also generate cash from repurchase transactions involving non-cash assets.

Provisions relating to daily assessment and valuation will be updated. In the reverse repo context, a specific reference to a 2% haircut will be removed, as the relevant haircut will be determined pursuant to the Investment Management Procedures. For sovereign obligations, the amendments will also note that sovereign investments are intended to have minimal market risk as well as high credit quality, consistent with current practice.

The amendments will also update the liquid resources considered for daily liquidity management monitoring, to be cash on account, investments maturing that day and sovereign obligations that can be liquidated that day. Other resources which can be liquidated over a longer period or uncommitted but highly reliable lines of credit are not included for the purposes of liquidity management monitoring.

The amendments revise and update the discussion of liquidity shortfalls, which are situations where the Clearing House does not have sufficient assets to meet its payment obligations in one or more currencies, including intraday payments. The discussion notes certain factors that may cause shortfalls, including external market factors, clearing member related events, or shortfalls from ICE Clear Europe's investment management programs. In the case of technical issues relating to a financial service provider, the amendments would clarify that the Clearing House could generate cash through the repo market, sell non-cash collateral outright or access available liquidity facilities.

A revised section will be added to summarize sourcing of liquidity in stress events (replacing a previous discussion of replenishment of liquidity), which describes the range of alternatives ICE Clear Europe may choose if faced with a liquidity shortfall to protect the Clearing House and clearing members, minimize time and costs of remediation plan and reduce cost of sourcing liquidity. Alternatives include utilizing available cash resources, limiting investment rollovers, using alternative currency as per the Rules, declining collateral exchange requests for a period of time, using

securities received as part of existing investments to generate cash through repo, liquidation of securities posted by a defaulter as collateral, among other actions permitted by the Rules.

The amendments will also make the updates to the Procedures for ongoing periodic review and document governance, similar to those described above for the Policy.

### *Compliance with the Act and CFTC Regulations*

The amendments to the Policy and Procedures are potentially relevant to the following core principles: (B) Financial Resources, (D) Risk Management, and (O) Governance, and the applicable regulations of the Commission thereunder.

- *Financial Resources.* As discussed above, the amendments to the Policy and Procedures are intended to more clearly describe and document liquidity risk management practices, in order to ensure the Clearing House has adequate liquidity to cover its normal course payment obligations and its payment and other obligations in the event of Clearing Member default or other liquidity shortfall. The amendments more clearly document the Clearing House's relevant liquidity risks, means of mitigating liquidity risks and sources of liquidity in the event of a liquidity shortfall, in light of the default resources of the Clearing House and the Clearing House's investment procedures. As such, ICE Clear Europe believes the amendments will facilitate its ability to measure, monitor and manage its liquidity risks, in a manner consistent with the requirements of Core Principle B and Commission Rule 39.11(e).
- *Risk Management.* The amendments are also intended to enhance the Clearing House's overall risk management. In particular, the amendments to the Policy and Procedures are intended to more clearly document the Clearing House's liquidity risk management practices (but generally are not intended to materially change current practices). The amendments clarify the Clearing House's sources of liquidity risk and steps the Clearing House can take to monitor and mitigate such risks. The amendments will thus facilitate the Clearing House's ability to manage the risks associated with discharging its responsibilities, consistent with the requirements of Core Principle D and Commission Rule 39.13.
- *Governance.* As discussed above, the amendments update the documentation governance, review and approval provisions for the Policy and Procedures, in a manner consistent with other ICE Clear Europe policies and procedures. The amendments more clearly set out the roles of relevant personnel and committees and in the governance process, among other enhancements. In ICE Clear Europe's view, the amendments are therefore consistent with the requirements of Core Principle O and Commission Rule 39.24.

As set forth herein, the amendments consist of the amendments to the Policy and Procedures. ICE Clear Europe has requested confidential treatment with respect to the



Policy and Procedures, which have 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 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 [George.milton@ice.com](mailto:George.milton@ice.com) or +44 20 7429 4564.

Very truly yours,

A handwritten signature in blue ink, appearing to read "G. Milton", is written over a faint, light blue horizontal line.

George Milton  
Head of Regulation & Compliance