

SECURITIES AND EXCHANGE COMMISSION

Release No. 34-86413; File No. SR-ICEEU-2019-012

July 19, 2019

Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing of Proposed Rule Change, Security-Based Swap Submission or Advance Notice Relating to the ICE Clear Europe Treasury and Banking Services Policy, Liquidity Management Procedures, Investment Management Procedures and Unsecured Credit Limits Procedures

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 5, 2019, ICE Clear Europe Limited (“ICE Clear Europe” or the “Clearing House”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule changes described in Items I, II and III below, which Items have been prepared by ICE Clear Europe. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change, Security-Based Swap Submission, or Advance Notice

ICE Clear Europe proposes to adopt a new Treasury and Banking Services Policy, new Liquidity Management Procedures and Investment Management Procedures and revised Unsecured Credit Limits Procedures (collectively, the “Treasury Documents”). (The Investment Management Procedures, Liquidity Management Procedures and Unsecured Credit Limits Procedures are referred to herein as the “Procedures Documents”.) The Treasury Documents would replace the existing Liquidity Risk Management Framework, Liquidity Plan, Investment Management Policy and Approved

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Financial Institutions Policy (the “Existing Documents”). The revisions would not involve any changes to the ICE Clear Europe Clearing Rules or Procedures.³

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change, Security-Based Swap Submission or Advance Notice

In its filing with the Commission, ICE Clear Europe included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. ICE Clear Europe has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change, Security-Based Swap Submission or Advance Notice

(a) Purpose

ICE Clear Europe is proposing to adopt the new Treasury Documents in order to:

- simplify and streamline the documentation;
- remove inaccuracies and unused elements;
- remove elements that are documented or managed elsewhere;
- better separate between policy-level documentation (Policies) and implementation-level documentation (Procedures); and
- improve operational flexibility.

Generally, other than certain additional liquidity review procedures as discussed below, the changes would not alter the existing substantive treasury and banking practices

³ Capitalized terms used but not defined herein have the meanings specified in the ICE Clear Europe Clearing Rules (the “Rules”).

of the Clearing House. Broadly, the proposed amendments would combine the high level policy elements of the Existing Documents into the Treasury and Banking Services Policy. The supporting detail for the policy would be in the new Procedures Documents. Following adoption of the Treasury Documents, the Existing Documents would be retired.

Treasury and Banking Services Policy

The Treasury and Banking Services Policy (the “Policy”) would set out the overall principles applied to the ICE Clear Europe cash and collateral management functions for Clearing Member (“CM”) assets. The Treasury and Banking Services Policy would replace the existing Liquidity Risk Management Framework and contain policy-level information relating to liquidity risk management and investment management.

a. Treasury and Banking Services

The proposed Policy would state that the treasury and banking services (“TBS”) department is responsible for cash and collateral management functions for CM assets including relating to liquidity and cash margin investment and that these functions are subject to applicable regulations and the Rules and Procedures, particularly the Finance Procedures. The Policy would further outline certain procedures relating to initial margin (“IM”), guaranty fund (“GF”) contributions and variation margin (“VM”) and the manner in which CMs would cover these liabilities.

b. Cash Management

The proposed Policy would address the manner in which ICE Clear Europe transfers cash in the relevant currencies intraday through an Assured Payment System (“APS”) into its ‘concentration banks’ and invests or secures such cash at end of day. ICE Clear Europe uses multiple APS banks which are approved financial institutions that have committed to meet certain technical and operational requirements. Approved financial institutions are financial service providers that have been approved by the Credit Risk team and meet eligibility and monitoring criteria set out in the Unsecured Credit Limits Procedures.

c. Liquidity Risk

The proposed Policy would describe the sources of liquidity risks and, at a high level, how liquidity shortfalls may be addressed. It would further set out ICE Clear Europe’s liquidity risk management objective to maintain sufficient liquid resources in all relevant currencies to meet its payment obligations as they come due and its strategy to achieve this objective. Its strategy would entail structuring and sequencing its cash flows to minimize liquidity risks, monitoring intraday cash inflows and outflows to ensure payments are met, and running daily liquidity stress tests (“LSTs”).

The Policy would set out that ICE Clear Europe runs daily liquidity monitoring and stress testing to: measure and monitor its liquidity position on an ongoing basis and assess its potential immediate and future liquidity needs across a range of extreme but plausible market scenarios. The LSTs are set out in the LST Model Documentation and would be reviewed periodically as would be set out in the Liquidity Management

Procedures. Models underpinning the LSTs would be reviewed in accordance with ICE Clear Europe's Model Risk Governance Framework.

d. Investment of Cash

The proposed Policy would set out ICE Clear Europe's investment management objective to safeguard the principal of its CMs' cash, maintain sufficient liquidity to cover its payment obligations and obtain a reasonable rate of return. Its related strategy would be to: (i) manage its investment portfolio to ensure it has sufficient liquidity; (ii) rebalance its investment portfolio as a result of the LSTs and available liquidity to ensure enough cash is available to meet daily payment obligations; and (iii) invest or secure cash after the relevant deadline has passed for CMs to withdraw or exchange excess cash. The proposed Policy would set out the criteria to determine whether investment instruments are acceptable, including requiring: (i) that the market for the instruments have sufficient price history and be sufficiently liquid and transparent; and (ii) that the instrument not be issued by a CM or entity that is part of the same group as a CM and not be issued by a CCP or entity providing services critical to ICE Clear Europe's functioning. The proposed Policy would further require that investments are in sufficiently liquid currencies, diversified across counterparties, subject to credit criteria and, with respect to reverse repo collateral, subject to suitable haircuts. Parties and employees involved in the investment process would be required to refrain from conflicts of interest and ICE Clear Europe would be required to keep appropriate records.

e. Collateral Management

Pursuant to the proposed Policy, CMs could substitute cash covering IM or GF requirements with collateral or cash in a different currency, subject to constraints set out

in the ICE Clear Europe Finance Procedures. Whenever practicable, ICE Clear Europe would hold accounts with Central Securities Depositories (“CSDs”). Assets of individual CMs and, where appropriate, clients with individually segregated assets, would be required to be readily identifiable in ICE Clear Europe’s systems.

f. Governance

The Policy would also address procedures for ensuring that the proposed Treasury Documents remain up-to-date and are reviewed in accordance with ICE Clear Europe’s governance processes, as well as for handling exceptions. The policy would also address reporting of material breaches or unapproved deviations from the Policy to the Head of Department, a senior member of the Risk Oversight Department and a senior member of the Compliance Department who would together will determine if further escalation should be made to relevant senior executives, the Board and/or competent authorities.

Liquidity Management Procedures

(i) Proposed Amendments

Pursuant to the proposed amendments, the Liquidity Management Procedures would replace the current Liquidity Plan. The procedures would provide a number of improvements over existing liquidity risk management practices and in particular address the issues described below.

- Pursuant to the proposed amendments, a haircut would be applied to the liquidation value of securities owned outright as part of the LSTs.
- ICE Clear Europe would more clearly and concisely document its liquidity strategy including a clear explanation of how it manages its so-called “cover 2” requirements. Further, the LST scenarios would no longer be detailed in the

Liquidity Management Procedures but would be moved to LST Model

Documentation that can be updated more flexibly as needed.

- The amendments would clarify the distinction between liquidity tools used to address a technical obstacle to making payments and those used to address a default or investment loss.
- Currencies would no longer be distinguished as material or non-material, and instead ICE Clear Europe would look to the size of the relevant obligation for LST purposes.
- The Liquidity Management Procedures would explicitly document ICE Clear Europe's approach to reviewing scenarios and assumptions underlying its LSTs.
- The Liquidity Management Procedures would address settlements and deliveries in more detail including how this is additive to defaulting member exposure and how this risk is managed.
- The Liquidity Management Procedures would explicitly document periodic reviews on a monthly basis, including consideration of emerging risks.
- The Liquidity Management Procedures would establish and document a process for formal governance review and challenge of the assumptions for the hypothetical LST scenarios (e.g., systemic or market infrastructure scenarios), with a link to emerging risks.
- The cover 1 liquidity stress scenario required under Commission rules,⁴ based on qualifying liquid resources under such rules, would be referenced in the Liquidity Management Procedures and documented in the LST Model Documentation.

⁴ 17 CFR 240.17Ad-22(e)(7).

- The procedures would recognize that ICE Clear Europe has determined that ‘other prearranged funding arrangements’ are highly reliable even in extreme but plausible market conditions.
- The procedures would memorialize the process of conducting comprehensive periodic reviews to evaluate LSTs and stress scenarios.

(ii) Summary of Other Aspects of Liquidity Management Procedures

(A) Overview

The proposed Liquidity Management Procedures would generally set out how ICE Clear Europe would address:

- Monitoring and management of liquidity risks, liquidity needs and liquidity resources; and
- Access to liquidity resources, including in case of liquidity shortfalls.

The procedures would be structured to address:

- ICE Clear Europe’s payment obligations;
- Management and monitoring of ICE Clear Europe’s liquidity needs and maintenance of sufficient liquid resources;
- Daily assessment and valuation of liquid assets;
- Sources and mitigations of liquidity risk; timescales of liquid resources;
- Substitution of cash with non-cash collateral and withdrawal of excess margin by CMs;
- Liquidity shortfalls;
- Replenishment of liquidity in stress events;
- Periodic reviews of liquidity stress tests and liquidity providers; and

- Governance, breach management and exception handling (in the same manner as under the Policy).

(B) Payment Obligations

This section of the proposed procedures would set out the sources of payment obligations relevant to liquidity management, which are: (i) paying VM to those with positive P&L on their trades, (ii) paying delivery or settlement monies when trades deliver or settle; and (iii) returning surplus IM or other margin to individual CMs. ICE Clear Europe would only have a liquidity need not covered in the ordinary course where there has been a firm default or a technical issue at a financial services provider. The proposed procedures would explain the various structural arrangements that ICE Clear Europe has in place to minimize liquidity risk.

(C) Management and Monitoring of Liquidity Needs

The proposed procedures would explain that ICE Clear Europe runs a range of LSTs each day as set out in the LST Model Documentation, which covers CM default scenarios as well as defaults of financial service providers and defaults with other operational outflows. The Clearing Risk team develops market scenarios and calculates stress losses to set the required levels of IM and GF for CMs and accounts which the TBS department then aggregates across different operational scenarios to set the level of liquid resources ICE Clear Europe must maintain. Potential investment losses are also calculated should the defaulting CMs also be investment counterparties, as well as cash outflows due to deliveries and settlements. Throughout the day, the TBS department monitors outstanding payment requests to identify failures which could lead to default using exception-based

monitoring tools, as well as the current level of available liquid resources compared to the level needed within currency and maturity buckets.

(D) Sources and Mitigation of Liquidity Risk

The proposed procedures would list specific sources of default liquidity risk, and the means through which ICE Clear Europe generally manages such risks.

(E) Timescale of Liquidity Resources

The proposed procedures note that for liquidity management monitoring, ICE Clear Europe would only include resources that can be drawn upon on a same day basis, including cash, investments maturing that day, sovereigns with different maturities that can be liquidated that day, highly reliable uncommitted operating lines and committed repo lines. Treasuries held as collateral against reverse repo agreements have been determined to be highly reliable, even in extreme but plausible market conditions, because ICE Clear Europe would only accept those of high credit quality and subject them to haircuts in its LSTs which were developed, including stressed market conditions.

(F) Liquidity Shortfalls

The proposed procedures would describe how in a default situation, liquidity is generated through the default management waterfall and ICE Clear Europe could use its existing pool of cash first to cover payment obligations as this may be more readily available. In a liquidity shortfall situation due to a technical issue, ICE Clear Europe could use its uncommitted and committed lines or liquidate non-cash collateral.

(G) Replenishment of Liquidity in Stress Events

The procedures would explain that with respect to replenishment, provided losses would be covered by the default waterfall, (i) if the losses were covered by the margin

and GF contribution of the defaulting CM, there would be no need for replenishment, and (ii) if part of the GF contributions of the other CMs or ICE Clear Europe's GF contribution were used, then after contribution requirements are reassessed, they would be replenished as set out in the Rules. Where additional liquidity would be required due to a technical issue, it would automatically be remedied upon resolution of the issue as it would involve no overall reduction in liquidity resources.

(H) Liquidity Stress Tests

The LSTs would assess the impact on sources of liquidity and liquidity exposures in both currency and time in a broad range of market and operational scenarios. To assess them, the TBS, Clearing Risk and Risk Oversight departments would meet monthly to analyze and discuss: whether to include any new or emerging risks in the stress tests, the adequacy and assumptions of LST scenarios, the adequacy of stress test inputs, acceptance of current LST scenario calibrations, performance of liquidity providers, annual due diligence reviews of liquidity providers to assess their ability to perform their role as such, and annual testing of sources of liquidity. In stressed market conditions, the TBS, Clearing Risk and Risk Oversight departments would meet more frequently than monthly to ensure LSTs and stress scenarios are fit for purpose. The above analysis of LSTs would be periodically reported to a Board-level committee.

Investment Management Procedures

Pursuant to the proposed amendments, the Investment Management Procedures would contain the procedures-level information from the current Investment Management Policy, setting out the permitted investments when investing or securing cash received from CMs either as GF contributions, IM or other types of margin. The proposed

procedures would also set out constraints on these investments, including concentration limits, credit ratings and maturity limits and any additional considerations in times of insufficient market supply of approved investments. The procedures would set out the investment management objective and investment currencies (EUR, GBP, and USD).

With respect to authorized investments in times of normal supply, pursuant to the proposed procedures: (i) investments could only be made with approved financial institutions; (ii) at least 50% of the portfolio in each currency should be invested in overnight reverse repurchase (“repo”) agreements; (iii) non-overnight investments should have a variety of maturity dates; (iv) customer funds of FCM/BD Clearing Members would be required to be segregated from those of other CMs, to be held in permitted depositories for such customer funds (consistent with applicable regulations) and to be invested only in overnight reverse repos and direct purchases of US sovereign obligations with permitted counterparties for such transactions under applicable regulations; and (v) purchased securities would be required to be held until maturity to minimize market risk impact. The proposed procedures would contain a table setting out the authorized instruments, concentration limits, maximum maturity and minimum credit ratings or allowed entities. The TBS department would monitor adherence to the investment criteria.

The proposed procedures would set out additional considerations for reverse repo agreements requiring: (i) at least four investment counterparties in each currency; (ii) consideration by the Head of the TBS department, or their delegate, in the event of a counterparty downgrade, as to whether it may be more prudent to liquidate or hold a trade until maturity; (iii) deeming repo agreements to have a maturity equal to the schedule

repurchase date of the underlying securities, or where the agreement is subject to a demand, the applicable notice period; and (iv) collection of only certain collateral deemed acceptable and subject to a predetermined haircut.

In times of insufficient market supply, US government agency securities and supranational obligations would also be acceptable for investment and repo agreement collateral. Further, ICE Clear Europe would no longer need to invest at least 50% in overnight repurchase agreements and concentration limits would no longer apply. In periods of lower overnight supply, investments should be allocated to other investment types according to the order of preference set out in the procedures.

Breaches of concentration limits would be escalated to the Risk Oversight Department and the Compliance team as well as reported to the relevant regulators through regular reports. The investment portfolio would be rebalanced to return within the concentration limits. The TBS department would, in conjunction with the Risk Oversight Department and Clearing Risk team, review the concentration limits every quarter. The procedures would also address procedure governance, breach management and exception handling (in the same manner as under the Policy).

Unsecured Credit Limits Procedures

The proposed revised Unsecured Credit Limits Procedures would support aspects of the Policy, the Investment Management Procedures and the Counterparty Rating Systems. The amendments to the procedures would address the eligibility requirements for counterparties and monitoring procedures for unsecured exposure.

(i) Eligibility Methodology

The proposed amendments to the procedures would require that in order for a legal entity to be eligible as a counterparty or financial service provider, it would need to be regulated by a competent authority and comply with the applicable minimum external rating and maximum ICE Clear Europe rating for such entity type as set out in the procedures. If the entity is a repo provider, it would need to be organized in the US or EU countries satisfying the minimum external rating.

(ii) Monitoring

The proposed procedures would require daily monitoring of overnight unsecured exposure at the legal entity level. Subject to data availability and technology, overnight unsecured exposures relative to unsecured limits would also be monitored at least weekly. Other exposures and aggregation with other Legal Entities of the same group of companies would be monitored at least monthly. The procedures would also address procedure governance, breach management and exception handling (in the same manner as under the Policy).

(b) Statutory Basis

ICE Clear Europe believes that the proposed amendments are consistent with the requirements of Section 17A of the Act⁵ and the regulations thereunder applicable to it. In particular, Section 17A(b)(3)(F) of the Act⁶ requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements,

⁵ 15 U.S.C. 78q-1.

⁶ 15 U.S.C. 78q-1(b)(3)(F).

contracts, and transactions, the safeguarding of securities and funds in the custody or control of the clearing agency or for which it is responsible, and the protection of investors and the public interest. The proposed Treasury Documents are intended to consolidate and clarify certain existing policies and procedures relating to treasury operations and liquidity management. Except as noted above, the amendments would not generally change existing practices, but in ICE Clear Europe’s view the revised documentation would facilitate ongoing treasury risk and liquidity risk management by the Clearing House, so that the Clearing House would be able to meet its short-term financial obligations in the event of clearing member defaults or other liquidity stress events. These processes would therefore promote overall Clearing House risk management and facilitate the prompt and accurate clearing of cleared contracts and protect investors and the public interest in the sound operations of the Clearing House, consistent with the requirements of Section 17A(b)(3)(F).⁷ Through facilitating ongoing treasury risk and liquidity risk management that enables the Clearing House to meet its short-term financial obligations in the event of clearing member defaults or other liquidity stress events, the amendments may also enhance the safeguarding of securities and funds in the custody or control of the Clearing House or for which it is responsible.

The proposed Treasury Documents are further consistent with the requirements of Rule 17Ad-22(e)(3)(i) and (ii)⁸ through generally strengthening ICE Clear Europe’s risk

⁷ 15 U.S.C. 78q-1(b)(3)(F).

⁸ 17 CFR 240.17Ad-22(e)(3)(i) - (ii). The rule states that “[e]ach covered clearing agency shall establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable: [m]aintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which:

management framework for managing liquidity risks, including setting out in detail how such risks are monitored and managed, and addressing the possibility of recovery should other mechanisms to address liquidity resource shortfalls fail.

The proposed Treasury Documents are also consistent with the requirements of Rule 17Ad-22(e)(7)(i) and (ii) and Rule 17Ad-22(a)(14)⁹ which require ICE Clear

-
- (i) Includes risk management policies, procedures, and systems designed to identify, measure, monitor, and manage the range of risks that arise in or are borne by the covered clearing agency, that are subject to review on a specified periodic basis and approved by the board of directors annually;
 - (ii) Includes plans for the recovery and orderly wind-down of the covered clearing agency necessitated by credit losses, liquidity shortfalls, losses from general business risk, or any other losses;”

⁹ 17 CFR 240.17Ad-22(e)(7)(i) - (ii). The rule states that “[e]ach covered clearing agency shall establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable: [e]ffectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by, at a minimum, doing the following:

- (i) Maintaining sufficient liquid resources at the minimum in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios that includes, but is not limited to, the default of the participant family that would generate the largest aggregate payment obligation for the covered clearing agency in extreme but plausible market conditions;
- (ii) Holding qualifying liquid resources sufficient to meet the minimum liquidity resource requirement under paragraph (e)(7)(i) of this section in each relevant currency for which the covered clearing agency has payment obligations owed to clearing members;

17 CFR 240.17Ad-22(a)(14) Qualifying liquid resources means, for any covered clearing agency, the following, in each relevant currency:

- (i) Cash held either at the central bank of issue or at creditworthy commercial banks;
- (ii) Assets that are readily available and convertible into cash through prearranged funding arrangements, such as:
 - (A) Committed arrangements without material adverse change provisions, including:
 - (1) Lines of credit;

Europe to maintain sufficient qualifying liquid resources. In compliance with this requirement, the proposed Treasury Documents would document ICE Clear Europe's procedures for holding liquid resources in the relevant currencies to effect same-day settlement payment obligations under a wide range of scenarios. As would be described in the proposed Liquidity Management Procedures, the LST scenarios used to test resources are designed to cover the default of at least the two CMs with the largest exposure to ICE Clear Europe, in extreme but plausible market conditions, together with defaults of financial service providers and other operational outflows. The Liquidity Management Procedures would also expressly address the scenario of the default of the family with the largest aggregate payment obligation for ICE Clear Europe, in extreme but plausible market conditions, as required under Commission Rule 17Ad-22(e)(7).¹⁰ As would be described in the Liquidity Management Procedures, if necessary, ICE Clear Europe has uncommitted FX lines to enable it to make the necessary currency conversions and committed and uncommitted repo facilities to obtain cash from securities positions. It would also apply haircuts to any non-cash collateral or cash in currencies other than required currencies in calculating available liquid resources. The TBS

-
- (2) Foreign exchange swaps; and
 - (3) Repurchase agreements; or
 - (B) Other prearranged funding arrangements determined to be highly reliable even in extreme but plausible market conditions by the board of directors of the covered clearing agency following a review conducted for this purpose not less than annually; and
 - (iii) Other assets that are readily available and eligible for pledging to (or conducting other appropriate forms of transactions with) a relevant central bank, if the covered clearing agency has access to routine credit at such central bank in a jurisdiction that permits said pledges or other transactions by the covered clearing agency.

¹⁰ 17 CFR 240.17Ad-22(e)(7).

department would monitor liquid resource requirements relative to exposures throughout the day to further ensure that ICE Clear Europe would be able to meet its liquidity requirements. In compliance with the definition of “qualifying liquid resources,” the Liquidity Management Procedures would require that ICE Clear Europe only include resources which would be cash or which could be transferred into cash or could be drawn upon on a same day basis, specifically listing appropriate resources. In further compliance with Rule 17Ad-22(e)(5),¹¹ ICE Clear Europe sets and enforces appropriately conservative haircuts with respect to the assets it accepts as collateral as would be described in the Liquidity Management Procedures.

The Treasury Documents are similarly compliant with Rule 17Ad-22(e)(16)¹² and would require assets be held in a manner that minimizes risk of loss and invested in assets with minimal liquidity risk. The Investment Management Procedures would set out detailed requirements to ensure that investment risks are minimized. Only certain investments would be permitted and they would be subject to constraints such as concentration limits, credit ratings, currencies and maturity limits.

¹¹ 17 CFR 240.17Ad-22(e)(5). The rule states that “[e]ach covered clearing agency shall establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable: [l]imit the assets it accepts as collateral to those with low credit, liquidity, and market risks, and set and enforce appropriately conservative haircuts and concentration limits if the covered clearing agency requires collateral to manage its or its participants' credit exposure; and require a review of the sufficiency of its collateral haircuts and concentration limits to be performed not less than annually.”

¹² 17 CFR 240.17Ad-22(e)(16). The rule states that “[e]ach covered clearing agency shall establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable: [s]afeguard the covered clearing agency's own and its participants' assets, minimize the risk of loss and delay in access to these assets, and invest such assets in instruments with minimal credit, market, and liquidity risks.”

Rules 17Ad-22(e)(7)(iii) and (e)(9)¹³ require clearing agencies, where possible, to access accounts and services at a central bank. As would be described in the proposed Treasury Documents, ICE Clear Europe uses central banks for EUR and GBP deposits, and uses highly rated commercial banks as concentration banks for USD to minimize the risk of concentration bank defaults (as it is not eligible to maintain a USD account with the Federal Reserve). Investments are made as soon as possible after the deadline for CM withdrawals or exchanges of margin to further manage custody related risks.

Rule 17Ad-22(e)(7)(iv)¹⁴ requires clearing agencies to undertake due diligence to confirm their liquidity providers have sufficient information to understand the risks and

¹³ 17 CFR 240.17Ad-22(e)(7)(iii). The rule states that “[e]ach covered clearing agency shall establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable: [e]ffectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by, at a minimum, doing the following:

(iii) Using the access to accounts and services at a Federal Reserve Bank, pursuant to Section 806(a) of the Payment, Clearing, and Settlement Supervision Act of 2010 (12 U.S.C. 5465(a)), or other relevant central bank, when available and where determined to be practical by the board of directors of the covered clearing agency, to enhance its management of liquidity risk;”
maintain and enforce written policies and procedures reasonably designed to, as applicable: [c]onduct its money settlements in central bank money, where available and determined to be practical by the board of directors of the covered clearing agency, and minimize and manage credit and liquidity risk arising from conducting its money settlements in commercial bank money if central bank money is not used by the covered clearing agency.”

¹⁴ 17 CFR 240.17Ad-22(e)(7)(iv). The rule states that “[e]ach covered clearing agency shall establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable: [e]ffectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by, at a minimum, doing the following:

have the capacity to perform their liquidity commitments. As would be described in the proposed Treasury Documents, ICE Clear Europe uses multiple APS banks and ensures that they sign contracts committing to meet certain technical and operational requirements to confirm that these parties understand the risks. They must also be financial service providers that have been approved by the Credit Risk team and meet eligibility, credit limit and monitoring criteria as would be described in the Unsecured Credit Limits Procedures.

In compliance with the liquid resource stress testing requirements of Rule 17Ad-22(e)(7)(vi),¹⁵ as would be described in the proposed Treasury Documents, ICE Clear

(iv) Undertaking due diligence to confirm that it has a reasonable basis to believe each of its liquidity providers, whether or not such liquidity provider is a clearing member, has:

(A) Sufficient information to understand and manage the liquidity provider's liquidity risks; and

(B) The capacity to perform as required under its commitments to provide liquidity to the covered clearing agency;

¹⁵ 17 CFR 240.17Ad-22(e)(7)(vi). The rule states that “[e]ach covered clearing agency shall establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable: [e]ffectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by, at a minimum, doing the following:

(vi) Determining the amount and regularly testing the sufficiency of the liquid resources held for purposes of meeting the minimum liquid resource requirement under paragraph (e)(7)(i) of this section by, at a minimum:

(A) Conducting stress testing of its liquidity resources at least once each day using standard and predetermined parameters and assumptions;

(B) Conducting a comprehensive analysis on at least a monthly basis of the existing stress testing scenarios, models, and underlying parameters and assumptions used in evaluating liquidity needs and resources, and considering modifications to ensure they are appropriate for determining the clearing agency's identified liquidity needs and resources in light of current and evolving market conditions;

Europe runs daily liquidity stress testing to measure and monitor its liquidity position and assess the impact on sources of liquidity and liquidity exposures in both currency and time in a broad range of market and operational scenarios. The TBS, Clearing Risk and Risk Oversight departments would meet monthly to assess the tests and more frequently in stressed market conditions. The LSTs are set out in the LST Model Documentation and models underpinning the LSTs would be reviewed in accordance with ICE Clear Europe's Model Risk Governance Framework.

In compliance with Rule 17Ad-22(e)(7)(ix),¹⁶ the proposed Liquidity Management Procedures would set out ICE Clear Europe's process to replenish liquid resources. Provided losses would be covered by the default waterfall, (i) if the losses were covered by the margin and GF contribution of the defaulting CM, there would be no

-
- (C) Conducting a comprehensive analysis of the scenarios, models, and underlying parameters and assumptions used in evaluating liquidity needs and resources more frequently than monthly when the products cleared or markets served display high volatility or become less liquid, when the size or concentration of positions held by the clearing agency's participants increases significantly, or in other appropriate circumstances described in such policies and procedures; and
 - (D) Reporting the results of its analyses under paragraphs (e)(7)(vi)(B) and (C) of this section to appropriate decision makers at the covered clearing agency, including but not limited to, its risk management committee or board of directors, and using these results to evaluate the adequacy of and adjust its liquidity risk management methodology, model parameters, and any other relevant aspects of its liquidity risk management framework;"

¹⁶ 17 CFR 240.17Ad-22(e)(7)(ix). The rule states that "[e]ach covered clearing agency shall establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable: [e]ffectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by, at a minimum, doing the following: [d]escribing the covered clearing agency's process to replenish any liquid resources that the clearing agency may employ during a stress event;"

need for replenishment, and (ii) if part of the GF contributions of the other CMs or ICE Clear Europe's GF contribution were used, they would be replenished as set out in the Rules.

Rule 17Ad-22(e)(2)¹⁷ requires that a covered clearing agency provide for governance arrangements that, among other matters, are “clear and transparent” and “specify clear and direct lines of responsibility.” The proposed amendments would ensure that it is clear that material breaches and unapproved deviations from the Treasury Documents would need to be reported to certain senior leaders and that those individuals would determine whether issues should be further escalated. The amendments therefore enhance the governance arrangements relating to breaches of the Treasury Documents.

(B) Clearing Agency's Statement on Burden on Competition

ICE Clear Europe does not believe the proposed amendments would have any impact, or impose any burden, on competition not necessary or appropriate in furtherance of the purposes of the Act. The amendments would apply uniformly to all CMs, are being adopted to strengthen and clarify the Clearing House's liquidity risk management processes and should not affect the rights or obligations of CMs. Further, the amendments are generally intended to simplify and streamline documentation and reflect current practices, rather than substantially alter existing practices. As a result, ICE Clear Europe does not believe the amendments would affect the cost of clearing for CMs or other market participants, the market for cleared services generally or access to clearing by CMs or other market participants, or otherwise affect competition among CMs or

¹⁷ 17 C.F.R. § 240.17Ad-22(e)(2).

market participants in a manner not necessary or appropriate in furtherance of the purposes of the Act.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments relating to the proposed amendments have not been solicited or received by ICE Clear Europe. ICE Clear Europe will notify the Commission of any written comments received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change, Security-Based Swap Submission and Advance Notice and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, security-based swap submission or advance notice is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>) or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ICEEU-2019-012 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ICEEU-2019-012. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change, security-based swap submission or advance notice that are filed with the Commission, and all written communications relating to the proposed rule change, security-based swap submission or advance notice between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549, on official business days between the hours of 10:00 a.m. and 3:00 pm. Copies of such filings will also be available for inspection and copying at the principal office of ICE Clear Europe and on ICE Clear Europe's website at <https://www.theice.com/clear-europe/regulation>. All comments

received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions.

You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ICEEU-2019-012 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁸

Jill M. Peterson
Assistant Secretary

¹⁸ 17 CFR 200.30-3(a)(12).