



ICE Clear Europe Risk Management “Frequently Asked Questions”

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1 General

1.1 Does ICE Clear Europe Ltd or its parent ICE Inc have an external credit rating?

InterContinental Exchange Inc. external long term credit ratings are:

Moody's: A2. Stable.
S&P: A. Stable.

1.2 Does ICE Clear Europe amend collateral haircuts as a result of a rating downgrade?

No, when reviewing collateral haircuts, ICE Clear Europe does not incorporate credit ratings issued by any of the three major Nationally Recognised Statistical Rating Organisations (NRSROs). There are no formulaic triggers in place linked to external ratings.

See link for the List of Permitted Cover:

https://www.theice.com/publicdocs/clear_europe/list-of-permitted-covers.pdf

1.3 How does ICE Clear Europe monitor the counterparty risk of clearing members?

ICE Clear Europe operates a counterparty rating system, which uses quantitative and some elements of qualitative data, that assesses credit, market and liquidity risk based on multiple credit metrics and a credit scoring methodology. The methodology assesses the probability of default and expected loss, with an override available for external events and operational issues. Specific risk mitigation actions are mandated with respect to the member's overall rating.

Under ICE Clear Europe's Rules, the Clearing House has the ability to call for additional margin.

1.4 Does the clearing house operate credit limits with respect to Clearing Member risk exposure?

Following COB each evening ICE Clear Europe requires all Members to fully collateralise any increase in their IM requirement for payment by 09:00 (London) on the following business day. All Variation Margin (VM) losses must also be funded in cash in the currency of the contract by 09:00 (London) on the following business day (any VM gains are paid out to Members in cash in the currency of the contract at the same time).

Intra-day ICE Clear Europe monitors changes in each Member's exposure to the Clearing House in terms of both increases in IM requirement and intra-day VM losses. Members will be called intra-day where predefined intra-day limits are breached. Members must fund any intra-day calls received within 1 hour of receipt of the intra-day call notification.

1.5 Does ICE Clear Europe apply external credit ratings and concentration limits in its investment policy?

Please see link for information on ICE Clear Europe's investment activities:

<https://www.theice.com/clear-europe/treasury-and-banking>

1.6 Where can I find details of intraday margin calls made by ICE Clear Europe?

Details of margin calls are no longer held in EUAFTS, but can now be found in the notices section of Managed File Transfer. Should a Member require access to this service they should contact ICE Clear Europe Operations Department at the following email address: ICEClearEuropeOperations@TheIce.com

2 Futures & Options

2.1 Where can I find margin rates for ICE Clear Europe products?

For Energy products:

<https://www.theice.com/clear-europe/risk-management#margins-europe>

For Financials & Softs products:

<https://www.theice.com/clear-europe/risk-management#margin-liffe>

2.2 Is it possible to calculate the margin requirement for a portfolio?

Margin requirement can be calculated using the "ICE Risk Model" tool, which can be downloaded from the ICE Clear Europe website.

An overview of the ICE Risk Model is available in the 'ICE Risk Model Overview' section of Risk Management page here:

<https://www.theice.com/clear-europe/risk-management>

A position file guide can be found in the ICE Risk Model user guide also available under the 'ICE Risk Model Overview' section of Risk Management page.

2.3 Where can I find the latest ICE Risk Model array file?

The current, and historic, ICE Risk Model array files, are available at the bottom of the Risk Management web page for both Energy and Financial and softs products here:

<https://www.theice.com/clear-europe/risk-management>

2.4 How is the size of the Futures & Options Guaranty Fund calculated?

The Futures & Options Guaranty Fund size is calculated to comply with EMIR Articles 42 and 43 that require it to be sufficient to cover the default of the largest two members under

extreme but plausible market conditions. See the Guaranty Funds section of the following link for further information:

<https://www.theice.com/clear-europe/risk-management>

2.5 Does ICE contribute to the Futures & Options Guaranty Fund?

See the 'Financial Resources' section of the following link:

<https://www.theice.com/clear-europe/regulation>

2.6 How often do margin rates get updated for ICE Clear Europe products?

Margin rate parameters are reviewed routinely.

However, ad-hoc reviews are undertaken ahead of events which are expected to affect volatility or due to changes in observed volatility.

2.7 How does ICE Clear Europe treat the Net Liquidating Value of options?

Full details on the treatment of Net Liquidating Value, for premium paid up-front options, can be found in the following document:

https://www.theice.com/publicdocs/clear_europe/Net_Liquidating_Value_Guide.pdf

2.8 Why do I see jumps in margin requirement around month-end?

Jumps in margin requirement can be experienced for static portfolios, even though there is no change in portfolio constituents. This can be due to a combination of one or both of the following:

- Contracts expiring and therefore, no longer requiring margin.
- Contracts rolling from one expiry tier to another. For example, following an expiry a contract may move from expiry tier 3 into expiry tier 2, where the margin requirement is different between the two expiry tiers.

2.9 Why can the ICE Risk Model reports show contracts which are not in my portfolio?

It is likely that some of the contracts in your portfolio are subject to the decomposition methodology.

A full breakdown of all contracts subject to decomposition can be found at the bottom of the Risk Management website:

<https://www.theice.com/clear-europe/risk-management>

Under the following heading: '*Margin Rates: Energy*'

Open the file named '*Decomposed contracts margin rates*'

2.10 What is decomposition and how are decomposed contracts margined?

Decomposition allows the ICE Risk Model methodology to better reflect the risk of contracts with multiple underlyings. With this feature, a position in a relevant contract is decomposed, or transformed, into positions in the underlying instruments. The margin requirement is then calculated on the synthetic positions in the underlying instruments.

3 Credit Default Swaps

3.1 Does the Initial Margin increase if a clearing member is downgraded?

No, the Initial Margin Requirement is not influenced by credit ratings issued by any of the three major NRSROs.

3.2 What are the main components of the CDS Initial Margin?

- Spread Response requirement: designed to capture the risk associated with the Risk Factor (RF) spread level variability and changes in the RF credit spread term structure (“curve”) shape.
- Interest Rate Sensitivity requirement: designed to account for possible risk associated with changes of the default-free discount Interest Rate (IR) term structure used to price CDS.
- Recovery Rate Sensitivity requirement: designed to incorporate the impact of different Recovery Rate (RR) scenarios for every Single Name (SN), or Index family of instruments, referred as RF.
- Jump-to-Default requirement for Single Name RF’s associated with sold protection: considers the liability associated with one credit event for some assumed SN-specific minimum RR denoted RR_{min}.
- Liquidity Requirement (or Bid/Offer Requirements): In the event of a Clearing Participant (CP) default, the CCP may face additional risk (cost) associated with unwinding CDS Instruments with different market depth and liquidity. Therefore, a bid/offer risk requirement, dubbed Liquidity Charge (LC) has been introduced.
- Large Position requirement (Concentration Charges): Applies to long and short protection positions that exceed predefined RF specific notional Threshold Level (TL). The CC Threshold reflects the market depth and liquidity for the considered RF.
- Basis Risk requirement: designed to capture differences in trading behavior of index-derived and outright SN positions. For portfolios consisting of opposite SN and index positions and the considered indices have constituents that are the same as the opposite SN positions, replication benefits are considered. Such replication benefits give rise to Basis Risk requirement

See the CDS Initial Margin section at the following link for further information:

<https://www.theice.com/clear-europe/risk-management>

3.3 Where can I find the ICE Clear Europe CDS Cleared Products list?

A full breakdown of all cleared credit default swaps can be found in the following spreadsheet:

https://www.theice.com/publicdocs/clear_europe/ICE_Clear_Europe_Cleared_Products_List.xlsx

3.4 Is it possible to calculate the Initial Margin requirement for a CDS portfolio?

Member can access the CDS Margin Simulation calculator to simulate margin requirements via the ICE Link GUI.

Full details are available at the following link:

https://www.theice.com/publicdocs/clear_credit/ICE_CDS_Margin_Calculator_Presentation.pdf

3.5 What is the CDS Guaranty Fund Intended to cover?

The CDS GF stress test scenarios are designed to account for:

- The occurrence of credit events for two Clearing Members (CM), including affiliates and three reference entities on which the defaulted CMs sold protection,
- Adverse contracting or widening credit spread scenarios,
- Adverse widening of Index-SN “basis”, and
- Adverse changes of the default-free discount terms structure.

See the CDS Guaranty Fund section at the following link for further information:

<https://www.theice.com/clear-europe/risk-management#guaranty-funds>