

FINANCIAL STATEMENTS

ICE Clear Credit LLC

Years Ended December 31, 2019 and 2018

With Report of Independent Registered Public Accounting Firm

# ICE Clear Credit LLC

## Financial Statements

Years Ended December 31, 2019 and 2018

### Contents

Report of Independent Registered Public Accounting Firm .....	1
Financial Statements	
Balance Sheets .....	2
Statements of Income .....	3
Statements of Changes in Member's Equity .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6



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## **Report of Independent Registered Public Accounting Firm**

The Board of Managers and Member  
ICE Clear Credit LLC

### **Opinion on the Financial Statements**

We have audited the accompanying balance sheets of ICE Clear Credit LLC (the Company) as of December 31, 2019 and 2018, the related statements of income, changes in member's equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Ernst & Young LLP*

We have served as the Company's auditor since 2009.

Atlanta, Georgia  
February 25, 2020

# ICE Clear Credit LLC

## Balance Sheets (In Thousands)

	December 31	
	2019	2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 60,354	\$ 63,742
Customer accounts receivable	7,100	8,016
Margin deposits and guaranty funds	24,412,923	25,225,641
Short-term restricted cash and cash equivalents	98,900	90,000
Other current assets	15,367	19,943
Total current assets	24,594,644	25,407,342
Developed software, net of accumulated amortization of \$38,444 and \$32,056 as of December 31, 2019 and 2018, respectively	14,740	14,908
Noncurrent assets:		
Long-term restricted cash	50,000	50,000
Total noncurrent assets	50,000	50,000
Total assets	\$ 24,659,384	\$ 25,472,250
<b>Liabilities and member's equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 25,816	\$ 37,939
Accrued salaries and benefits	4,459	5,325
Deferred revenue	2,714	2,705
Due to affiliates, net	4,877	6,540
Margin deposits and guaranty funds	24,412,923	25,225,641
Total current liabilities	24,450,789	25,278,150
Noncurrent liabilities:		
Other non-current liabilities	242	148
Total noncurrent assets	242	148
Total liabilities	24,451,031	25,278,298
Member's equity:		
Member's capital	113,900	105,000
Accumulated profit	94,453	88,952
Total member's equity	208,353	193,952
Total liabilities and member's equity	\$ 24,659,384	\$ 25,472,250

See accompanying notes.

# ICE Clear Credit LLC

## Statements of Income (In Thousands)

	Year Ended December 31	
	2019	2018
<b>Revenues</b>		
Clearing and processing fees, net	\$ 116,992	\$ 122,778
Affiliate revenues	4,562	4,861
Other revenues	55,902	45,843
Total revenues	177,456	173,482
<b>Operating expenses</b>		
Compensation and benefits	16,446	18,591
Professional services	608	574
Selling, general and administrative	7,158	7,434
Service and license fees to affiliates	24,716	28,804
Amortization	8,925	7,825
Total operating expenses	57,853	63,228
Operating income	119,603	110,254
Other income (expense):		
Interest expense, net	(1,301)	(2,532)
Other income (expense), net	229	(418)
Total other income (expense)	(1,072)	(2,950)
Income before income taxes	118,531	107,304
Income tax expense (benefit)	30	(1,732)
Net income	\$ 118,501	\$ 109,036

See accompanying notes.

ICE Clear Credit LLC

Statements of Changes in Member's Equity  
(In Thousands)

	<b>Member's Capital</b>	<b>Accumulated Profit</b>	<b>Total Member's Equity</b>
Balance at January 1, 2018	\$ 105,000	\$ 79,916	\$ 184,916
Net income	–	109,036	109,036
Distributions to member	–	(100,000)	(100,000)
Contributions from member	–	–	–
Balance at December 31, 2018	105,000	88,952	193,952
Net income	–	<b>118,501</b>	<b>118,501</b>
Distributions to member	–	<b>(113,000)</b>	<b>(113,000)</b>
Contributions from member	<b>8,900</b>	–	<b>8,900</b>
Balance at December 31, 2019	<b>\$ 113,900</b>	<b>\$ 94,453</b>	<b>\$ 208,353</b>

See accompanying notes.

ICE Clear Credit LLC

Statements of Cash Flows  
(In Thousands)

	Year Ended December 31	
	2019	2018
<b>Operating activities</b>		
Net income	\$ 118,501	\$ 109,036
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of developed software	8,925	7,825
Deferred taxes	(26)	(100)
Changes in assets and liabilities:		
Customer accounts receivable	916	(2,767)
Other current assets	4,576	(6,709)
Accounts payable and current liabilities	(12,989)	13,768
Deferred revenue	9	756
Due to/from affiliates, net	(1,637)	(2,310)
Other non-current liabilities	94	148
Total adjustments	(132)	10,611
Net cash provided by operating activities	118,369	119,647
<b>Investing activities</b>		
Capitalized developed software costs	(8,757)	(9,609)
Net cash used in investing activities	(8,757)	(9,609)
<b>Financing activities</b>		
Distributions paid	(113,000)	(100,000)
Member contributions	8,900	—
Net cash used in financing activities	(104,100)	(100,000)
Net increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents	5,512	10,038
Cash and cash equivalents and restricted cash and cash equivalents at beginning of year	203,742	193,704
Cash and cash equivalents and restricted cash and cash equivalents at end of year	\$ 209,254	\$ 203,742

See accompanying notes.

# ICE Clear Credit LLC

## Notes to Financial Statements

December 31, 2019

### **1. Formation, Organization, and Description of Business**

ICE Clear Credit LLC (ICE Clear Credit or the Company), serves as a regulated North American credit default swap (CDS) clearing house to clear North American, European, Asian-Pacific and Emerging Market CDS instruments. ICE Clear Credit is designed to address the operational and risk management needs of the credit derivatives market.

The Company is a Securities and Exchange Commission (SEC) regulated Securities Clearing Agency (SCA) and a Commodity Futures Trading Commission (CFTC) regulated Derivatives Clearing Organization (DCO) subject to certain core principles. On July 18, 2012, ICE Clear Credit was designated as a systemically important financial market utility (SIFMU) by the Financial Stability Oversight Council (FSOC). With this designation, ICE Clear Credit is subject to higher standards than other clearing houses that are not deemed to be systemically important. These standards include greater regulatory scrutiny and higher default resource and liquidity requirements, as well as higher operational standards. ICE Clear Credit is also subject to Federal Reserve oversight as a result of being designated a SIFMU.

ICE Clear Credit is wholly-owned by ICE US Holding Company L.P., a Cayman Islands exempt limited partnership. ICE US Holding Company L.P. is owned by ICE US Holding Company GP LLC and various other affiliated entities. ICE US Holding Company GP LLC is a Delaware limited liability company wholly-owned by Intercontinental Exchange, Inc. (ICE).

### **2. Summary of Significant Accounting Policies**

#### **Basis of Presentation**

The accompanying financial statements are presented in accordance with U.S. generally accepted accounting principles.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.



## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Cash and Cash Equivalents**

ICE Clear Credit considers all short-term, highly liquid investments with original maturities at the purchase date of three months or less to be cash equivalents.

##### **Restricted Cash and Cash Equivalents**

ICE Clear Credit classifies all cash and cash equivalents that are not available for immediate or general business use by ICE Clear Credit as restricted in the accompanying balance sheet (Note 3). The Restricted cash includes amounts set aside due to regulatory requirements, earmarked for specific purposes, or restricted by specific agreements.

##### **Customer Accounts Receivable**

Customer accounts receivable consists of fees earned from the clearing of CDS by ICE Clear Credit. Management performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Estimated credit losses are recorded as an allowance against accounts receivable and are based on management's estimates as a result of its evaluation of the collectability of accounts receivable based on customer financial condition, economic conditions and other factors. Accounts are written off when deemed uncollectible by management. The Company historically has not experienced material credit losses and therefore no allowance for doubtful accounts was required for December 31, 2019 and December 31, 2018.

##### **Margin Deposits and Guaranty Funds**

Original margin, variation margin and guaranty funds held for clearing members may currently be cash and cash equivalents in the form of U.S. dollars, U.S. Treasuries, and other G7 currencies (Note 6). Cash and cash equivalent original margin, variation margin and guaranty fund deposits are reflected in the accompanying balance sheets as current assets and current liabilities. The amount of margin deposits on-hand will fluctuate over time as a result of, among other things, the extent of open positions held at any point in time by clearing participants in contracts and the margin rates then in effect for such contracts. Changes in our margin accounts are not reflected in the statements of cash flows. Non-cash original margin and guaranty fund deposits are not reflected in the accompanying balance sheets. These non-cash financial assets are held in safekeeping. ICE Clear Credit does not take legal ownership of the assets and the risks and rewards of these assets remain with the clearing members, unless the clearing house has sold or re-pledged the assets in

## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

the event of a clearing member default, where the clearing member is no longer entitled to redeem the assets. Any income, gain or loss accrues to the clearing members.

#### **Property and Equipment**

Property and equipment is recorded at cost, reduced by accumulated depreciation (Note 4). Depreciation and amortization expense related to property and equipment is computed using the straight-line method based on estimated useful lives of the assets. The Company reviews the remaining estimated useful lives of the property and equipment at each balance sheet date and will make adjustments to the estimated remaining useful lives whenever events or changes in circumstances indicate that the remaining useful lives have changed. Maintenance and repairs are expensed as incurred.

#### **Software Development Costs**

ICE Clear Credit capitalizes costs related to software we develop or obtain for internal use. The costs capitalized include both internal and external direct and incremental costs. General and administrative costs related to developing or obtaining such software are expensed as incurred. Development costs incurred during the preliminary or maintenance project stages are expensed as incurred. Costs incurred during the application development stage are capitalized and amortized using the straight-line method over the useful life of the software, not to exceed three years. Amortization begins only when the software becomes ready for its intended use.

#### **Revenue Recognition**

ICE Clear Credit recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. ICE Clear Credit also evaluates all contracts in order to determine appropriate gross versus net revenue reporting.

ICE Clear Credit's revenues primarily consist of revenues for executed CDS trades cleared through the clearing house. Substantially all of our revenues are considered to be revenues from contracts with customers. The related accounts receivable balances are recorded in our balance sheets as customer accounts receivable. We do not have obligations for warranties, returns or refunds to customers, other than the rebates, which are settled each period and therefore, do not result in variable consideration. We do not have significant revenue recognized from performance obligations that were satisfied in prior periods, and we do not have any transaction price allocated

## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

to unsatisfied performance obligations other than in our deferred revenue. Certain judgments and estimates are used in the identification and timing of satisfaction of performance obligations and the related allocation of transaction price. We believe that these represent a faithful depiction of the transfer of services to our customers. Our clearing fees contain two performance obligations: 1) clearing novation and 2) risk management of open interest. We allocate the transaction price between these two performance obligations which are generally satisfied almost simultaneously, or in some instances revenue is deferred when ICE Clear Credit has an ongoing clearing obligation beyond the date of each clearing cycle. Deferred revenue consists of clearing revenues for executed CDS trades cleared through the clearing house for which the performance obligation is not yet completed.

CDS clearing fee revenues are a factor of the size of the notional value cleared times a fixed fee per \$1.0 million of notional cleared, subject to pricing structures provided to certain clearing members, which may limit the revenue opportunities available to ICE Clear Credit from these clearing members, including some clearing members who are limited partners of ICE US Holding Company L.P. (Note 5).

Clearing fee revenues were recorded net of rebates of \$4.8 million and \$6.7 million in the years ended December 31, 2019 and 2018, respectively.

Other revenue includes interest earned and retained by the Company on customer margin deposits held by the company, net of interest returned to the Company's clearing members.

See below for more details in the "Recently Adopted and New Accounting Pronouncements" regarding the impact of our Adoption of ASC 606, *Revenue from Contracts with Customers*, and ASC 340-40 *Other Assets and Deferred Costs- Contracts with Customers* on January 1, 2018.

#### **Affiliate Revenues and Expenses**

Affiliate revenues are recognized when the related services are provided to ICE Clear Credit's affiliates. Affiliate expenses are recognized at the time the services are provided to ICE Clear Credit by its affiliates (Note 5).

#### **Credit Risk and Significant Customers**

ICE Clear Credit's accounts receivable subject it to credit risk, as the Company does not require its customers to post collateral for fees related to the clearing service. Four of the Company's

## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

customers represented 58% of revenue for the year ended December 31, 2019 and 57% of the Company's total revenue for the year ended December 31, 2018.

ICE Clear Credit guarantees the settlement of all CDS contracts it clears. This guarantee is effective when the trade is accepted for clearing and remains in place until the contract is offset by another accepted trade, the contract expires, or is terminated. ICE Clear Credit limits its risk of loss by only allowing clearing access to companies that meet the financial and eligibility standards set forth in the rules of the clearing house and by terminating access to clear to entities with delinquent accounts. Further, ICE Clear Credit requires clearing members to maintain appropriate levels of guaranty funds and margin deposits (Note 6).

We also limit our risk of loss by holding the majority of the cash deposits in cash accounts at the Federal Reserve Bank of Chicago, high quality short-term sovereign debt reverse repurchase agreements with several different counterparty banks or direct investments in short-term high quality sovereign debt issues primarily with original maturities of less than three months. Cash deposit accounts are established at large, highly-rated financial institutions and entered into so that they restrict the rights of offset or imposition of liens by the banks. ICE Clear Credit, a systemically important financial market utility as designated by the Financial Stability Oversight Council, held \$19.5 billion and \$19.5 billion of its U.S. dollar cash margin in cash accounts at the Federal Reserve Bank of Chicago as of December 31, 2019 and 2018, respectively. Such accounts are intended to decrease ICE Clear Credit's custodial, liquidity and operational risk as compared to alternative custodial and investment arrangements.

While ICE Clear Credit seeks to achieve a reasonable rate of return which may generate interest income for its clearing members, ICE Clear Credit is primarily concerned with preservation of capital and managing the risks associated with these deposits. As ICE Clear Credit may pass on interest revenues, minus costs, to the members, this could include negative or reduced yield due to market conditions.

When engaging in reverse repurchase agreements, ICE Clear Credit takes delivery of the underlying securities in custody accounts controlled by ICE Clear Credit. Additionally, the securities purchased have a market value greater than the reverse repurchase amount. The typical haircut received for high quality sovereign debt is 2% of the reverse repurchase amount. Thus, in the event that a reverse repurchase counterparty defaults on its obligation to repurchase the underlying reverse repurchase securities, ICE Clear Credit will have possession of securities with a value potentially greater than the reverse repurchase counterparty's obligation to ICE Clear Credit.

## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, short-term and long-term restricted cash, customer accounts receivable, margin deposits and guaranty funds, and other current assets and liabilities. The carrying amount of these items approximates their fair values due to the short period of time to their maturities. We did not use Level 2 or 3 inputs to determine the fair value of assets or liabilities measured at fair value on a recurring or non-recurring basis during 2019 or 2018.

##### Income Taxes

ICE Clear Credit is a disregarded entity for federal income tax purposes and therefore is treated as a division of its Parent, ICE US Holdings Company L.P., a Cayman Islands exempt limited partnership. As such, ICE Clear Credit is not subject to entity-level federal, state or local income taxation. All items of income, expense, gain and loss of the Company are therefore included in the consolidated partnership tax returns of the Parent, which is currently only subject to unincorporated business taxes. Income taxes reflected in the accompanying financial statements are calculated as if the Company filed a separate partnership return and are accounted for under the liability method. Any taxes payable by the Parent on behalf of the Company are included as component of payables to related parties.

SEC Staff Accounting Bulletin No. 118, or SAB 118, provided guidance for companies that had not completed their accounting for the income tax effects of the Tax Cuts and Jobs Act, or TCJA, in the period of enactment, allowing for a measurement period of up to one year after the enactment date to finalize the recording of the related tax impacts. As of December 31, 2018, we had completed our accounting for the tax effects of the enactment of the TCJA.

##### Recently Adopted Accounting Pronouncements

On January 1, 2019, we were required to adopt ASC 606, *Revenue from Contracts with Customers*, and ASC 340-40, *Other Assets and Deferred Costs- Contracts with Customers*. We early adopted the requirements as of January 1, 2018 using a modified retrospective approach. ASC 606 provides guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASC 606 superseded prior revenue recognition guidance and requires us to recognize revenue when we transfer promised goods or services to customers in

## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 requires enhanced disclosures, including (i) revenue recognition policies used to identify performance obligations to customers and (ii) the use of significant judgments in measurement and recognition. Our adoption of ASC 606 decelerated the timing of recognition of a portion of clearing fee revenues.

#### **3. Restricted Cash and Cash Equivalents**

As a CFTC regulated DCO, ICE Clear Credit is required to maintain financial resources (net assets) in an amount that would cover certain operating costs for a one-year period, including maintaining cash or a committed line of credit to satisfy at least six months of such operating costs at all times. We satisfy the financial resource requirement with cash and cash equivalents, and therefore have restricted the full amount necessary to satisfy the one-year period. As of December 31, 2019 and December 31, 2018, the financial resources reserved in total for ICE Clear Credit were \$98.9 million and \$90.0 million, respectively and was reflected as short term restricted cash and cash equivalents in the accompanying balance sheets. Included in these amounts are the CFTC financial resource requirements as well as voluntarily-held additional reserves of \$36.2 million and \$25.4 million as of December 31, 2019 and December 31, 2018, respectively. The additional voluntary reserve amounts are consistent with the European Market Infrastructure Regulation (EMIR) requirements to cover operational, legal and business risks and to reserve capital to meet credit, counterparty and market risks not covered by the member margin and guaranty funds.

As of December 31, 2019 and 2018, the Company has contributed \$50.0 million to the ICE Clear Credit clearing house guaranty fund and such amount is reflected as long-term restricted cash in the accompanying balance sheets (Note 6).

## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### 4. Property and Equipment

Property and equipment consisted of the following as of December 31, 2019 and 2018:

	<b>December 31</b>		<b>Depreciation</b>
	<b>2019</b>	<b>2018</b>	<b>Period</b>
	<i>(In Thousands)</i>		<i>(In Years)</i>
Computer and network equipment	\$ 73	\$ 199	3 to 4
Software and internally developed software	53,190	47,083	3
	<u>53,263</u>	<u>47,282</u>	
Less accumulated depreciation and amortization	(38,523)	(32,374)	
Property and equipment, net	<u>\$ 14,740</u>	<u>\$ 14,908</u>	

For the years ended December 31, 2019 and 2018, amortization of software and internally developed software was \$8.9 million and \$7.8 million, respectively, and depreciation of computer and network equipment was zero for both years.

#### 5. Related-Party Transactions

ICE Clear Credit has agreements with ICE and other affiliates who are wholly-owned subsidiaries of ICE to support the operations of ICE Clear Credit. These subsidiaries of ICE also make payments to vendors on behalf of ICE Clear Credit and ICE Clear Credit also makes payments to vendors on behalf of these subsidiaries.

ICE and the other subsidiaries of ICE provide select infrastructure, domain knowledge and personnel to the Company. Affiliate expenses are recorded for the costs of the services provided to ICE Clear Credit by the affiliates plus a 5% markup. Certain other agreements are based on volumes cleared. The expenses incurred by affiliates primarily relate to salary, wages and benefits of the employees involved in performing or directly supervising services as well as other direct and overhead costs. Effective, October 1, 2015, ICE Clear Credit amended an agreement with ICE in order for the ICE Link platform to provide credit derivative processing services for Swap Execution Facility related credit default swap transactions which are submitted to ICE Clear Credit for the purpose of clearing.

## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### **5. Related-Party Transactions (continued)**

ICE Clear Credit has an agreement with ICE Trade Vault, LLC, which owns and operates an electronic platform for the collection, storage, and regulatory reporting of a comprehensive range of trade data in respect of commodity derivatives trades. The agreement grants ICE Clear Credit with a non-exclusive, non-transferrable, revocable license to access and use the ICE Trade Vault, LLC platform. Fees incurred in connection with this agreement are reflected in service and license fees to affiliates in the accompanying statements of income.

ICE Clear Credit has contracted with Creditex Group Inc. to develop, maintain and operate a technology solution intended to calculate and propose portfolios of Customer's market participants' credit default positions to optimize original margin requirements.

During the years ended December 31, 2019 and 2018, ICE Clear Credit has recorded \$24.7 million and \$28.8 million, respectively, in service and license fees to these affiliates in the accompanying statements of income related to these agreements.

At December 31, 2019 and 2018, ICE Clear Credit owed its affiliates \$8.6 million and \$10.0 million, respectively. At December 31, 2019 and 2018, ICE Clear Credit had receivables from its affiliates of \$3.7 million and \$3.5 million, respectively. The amounts are recorded as due to affiliates, net in the accompanying balance sheets.

ICE Clear Credit has also entered into licensing and services agreements with ICE Clear Europe, a wholly-owned subsidiary of ICE, to provide risk management and other services to ICE Clear Europe in connection with the clearing of European CDS products through ICE Clear Europe. License fees are earned based on a fixed percentage of revenue earned by ICE Clear Europe on the clearing of credit default swaps. Service fees are earned based on the costs of the services provided to ICE Clear Europe plus a 5% markup. During the years ended December 31, 2019 and 2018, revenues of \$4.4 million and \$4.7 million, respectively, have been recorded by ICE Clear Credit in connection with these agreements and are reflected as affiliate revenues in the accompanying statements of income. Payment of this related-party balance by ICE Clear Europe is not scheduled or provided for under the agreements, however, ICE Clear Europe is obligated to make payments at the discretion of ICE.

During the years ended December 31, 2019 and 2018, net payments of the amounts owed to affiliates of \$49.3 million and \$52.9 million, respectively, were settled. At December 31, 2019 and 2018, ICE Clear Credit had balances owed to affiliates of \$4.9 million and \$6.5 million, respectively, such amounts are recorded net as due to affiliates in the accompanying balance sheets.



## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### **5. Related-Party Transactions (continued)**

Certain former owners of The Clearing Corporation are limited partners of ICE US Holding Company L.P. They or their affiliates are also clearing members of ICE Clear Credit. Distinct pricing structure agreements apply to these initial clearing members of ICE Clear Credit, and these agreements include specific annual caps and floors on the total fees to be paid for all CDS clearing. These agreements may limit the revenue opportunities available to ICE Clear Credit from these clearing participants. ICE Clear Credit recognized revenues of \$103.4 million and \$105.9 million related to these clearing members during the years ended December 31, 2019 and 2018, respectively, and has \$5.8 million and \$6.4 million recorded as customer accounts receivable from these members at December 31, 2019 and 2018, respectively. For the year ended December 31, 2019 and 2018, respectively, \$34.0 million and \$33.7 million of revenues were subject to the distinct pricing structures provided to these initial clearing members. ICE Clear Credit paid dividends to related parties in the amount of \$113 million and \$100 million during the years ended December 31, 2019 and 2018, respectively. ICE Clear Credit received contributions of \$8.9 million during the year ended December 31, 2019, but did not receive contributions for the year ended December 31, 2018. All noted dividends and contributions were paid to and received from ICE US Holding Company L.P.

#### **6. Clearing House Operations**

ICE Clear Credit has established rules and operating procedures governing the clearing house, including membership and governance requirements. ICE Clear Credit membership is open to all qualifying buy-side and sell-side institutions. As a neutral and independent clearing house, all qualified CDS market participants will have the ability to access ICE Clear Credit. Membership is available to institutions that meet the financial and eligibility standards set forth in the rules of the clearing house.

As a clearing house, ICE Clear Credit performs the clearing and settlement of CDS. ICE Clear Credit has equal and offsetting claims to and from its respective clearing members on opposite sides of each contract; this allows ICE Clear Credit to serve as the central financial counterparty on every cleared contract. ICE Clear Credit bears financial counterparty credit risk in the event that market movements create conditions that lead to its clearing members failing to meet their financial obligations to the clearing house. Accordingly, ICE Clear Credit accounts for this and provides a central counterparty guarantee, or performance guarantee to its clearing members. To reduce their exposure ICE Clear Credit has a risk management program with both initial and ongoing membership standards. Given that each contract is settled on at least a daily basis for each clearing member, as of December 31, 2019 and 2018, excluding the effects of original and variation margin, guaranty fund and collateral requirements, ICE Clear Credit's maximum

## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### **6. Clearing House Operations (continued)**

estimated exposure for this guarantee is \$34.9 billion and \$34.2 billion, respectively. This represents the maximum estimated value of a hypothetical one day movement in pricing of the underlying unsettled contracts. This value was determined using proprietary risk management software that simulates gains and losses based on historical market prices, volatility and other factors present at that point in time for those particular unsettled contracts.

Future actual market price volatility could result in the exposure being significantly different than the amount estimated by ICE Clear Credit. As of December 31, 2019 and 2018, the net notional value of the unsettled contracts (open interest) was \$1.3 trillion and \$1.2 trillion, respectively. ICE Clear Credit performed calculations to determine the fair value of its counterparty performance guarantee taking into consideration factors such as daily settlement of contracts, margining and collateral requirements, other elements of its risk management program, historical evidence of default payments, and estimated probability of potential default payouts by ICE Clear Credit. Based on these analyses, the estimated counterparty performance guarantee liability was determined to be nominal and no liability was recorded as of December 31, 2019 and 2018. ICE Clear Credit has never experienced an incident of a clearing member default which has required the use of the guaranty funds of non-defaulting clearing members or the assets of ICE Clear Credit. ICE Clear Credit requires all clearing members to maintain on deposit or pledge certain assets known as original margin. Original margin is risk-based and forward-looking and is intended to protect the clearing house against the risk of a clearing participant default over a specifically designed time period and confidence level. The types of assets held as original margin are subjected to various liquidity thresholds on amounts that can be cash and cash equivalents held in U.S. dollars, U.S. Treasuries and G7 currencies.

ICE Clear Credit marks all outstanding contracts to market, and therefore pays and collects variation margin, at least once daily. The daily payment of profits and losses from and to ICE Clear Credit in respect of relevant contracts is known as variation margin and may only be made in cash.

ICE Clear Credit requires that each clearing member make deposits in a fund known as a guaranty fund. These amounts serve to secure the obligations of a clearing member and may be used to cover losses sustained by ICE Clear Credit in the event of a default of any clearing member. The types of assets that may be deposited into the guaranty fund are the same as those permitted for original margin.

ICE Clear Credit seeks to significantly reduce this exposure through a risk management program that includes original and ongoing financial standards for clearing firm admission and ongoing membership, original and variation margin requirements, and mandatory deposits to the guaranty

## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### **6. Clearing House Operations (continued)**

fund. The amounts that the clearing members are required to maintain in the original margin and guaranty fund accounts are determined by standardized parameters established by the risk management department, the risk committee, and the board of managers of ICE Clear Credit and may fluctuate over time. The risk management program gives ICE Clear Credit the ability to collect additional funds from its clearing members to cover a defaulting clearing member's remaining obligations. Should a particular clearing member fail to deposit original margin or fail to make a variation margin payment, when and as required, ICE Clear Credit may liquidate or hedge the clearing member's open positions and use the clearing member's original margin and guaranty fund deposits to pay any amount owed.

In the event that the defaulting clearing member's deposits and guaranty fund are not sufficient to pay the amount owed in full, ICE Clear Credit will first use their contribution of \$50.0 million to the guaranty fund. In the event that ICE Clear Credit's guaranty fund is not sufficient ICE Clear Credit may utilize the respective guaranty fund deposits, or collect additional funds from their respective non-defaulting clearing guaranty funds deposits, on a pro-rata basis, to pay any remaining amount owed up to the limits established under the Clearing House's rules. ICE Clear Credit's contribution to the guaranty fund is often referred to as skin in the game (SITG).

As of December 31, 2019, the cash original margin and cash guaranty fund balances are \$22.1 billion and \$2.3 billion, respectively. As of December 31, 2018, the cash original margin and cash guaranty fund balances are \$22.8 billion and \$2.4 billion, respectively. ICE Clear Credit has recorded these cash and cash equivalents deposits in the accompanying balance sheets as current assets with corresponding current liabilities to the clearing members. These deposits fluctuate due to the types of margin collateral choices available to clearing members and the change in the amount of deposits required. As a result, these assets and corresponding liabilities vary significantly over time.

In September 2019, the Company added a layer of insurance to our clearing member default protection in the amount \$50.0 million. The default insurance has a three-year term that commenced September 17, 2019. The default insurance layer resides after and in addition to the SITG contributions and before the guaranty fund contributions of the non-defaulting clearing members.

Similar to SITG, the default insurance layer is not intended to replace or reduce the position risk-based amount of the guaranty fund. As a result the default insurance layer is not a factor that is included in the calculation of the clearing members' guaranty fund requirement. Instead it serves as a new, additional, distinct and separate default resource that should serve to further protect the

## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### **6. Clearing House Operations (continued)**

non-defaulting clearing members' guaranty fund contributions from being mutualized in the event of default.

The FSOC has designated ICE Clear Credit as a SIFMU under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act. As such, ICE Clear Credit has been authorized to establish and maintain cash accounts at the Federal Reserve Bank of Chicago. The original house margin and guaranty fund account was opened on July 30, 2015, subsequently in 2017, the customer margin account was approved and opened.

Of the \$24.4 billion and \$25.2 billion of ICE Clear Credit cash deposits as of December 31, 2019 and 2018, respectively, \$19.5 billion was held in the cash account at the Federal Reserve Bank of Chicago at each date. An additional \$2.4 billion and \$1.9 billion as of December 31, 2019 and 2018, respectively, represent funds invested under euro-denominated reverse repurchase agreements with several counterparty banks, which are all large commercial financial institutions. Under these arrangements, ICE Clear Credit purchases euro-denominated sovereign securities and the various counterparties agree to repurchase the securities with short dated maturities at a set price, plus interest. The remaining \$2.5 billion and \$3.8 billion as of December 31, 2019 and 2018, respectively, in ICE Clear Credit cash deposits represent primarily euro cash in demand deposit accounts at large, highly-rated financial institutions.

All interest income net of certain costs and administrative fees earned on the cash margin deposits, including both the guaranty fund and the original margin deposits, belongs to the clearing members. Interest income retained by ICE Clear Credit is recorded as other revenue in the accompanying financial statements.

In addition to the cash deposits for original margin, variation margin, and the guaranty fund made to ICE Clear Credit, clearing members may also pledge certain assets to mitigate its credit risk. For certain deposits, ICE Clear Credit may impose discount or "haircut" rates to ensure adequate collateral if market values fluctuate. These assets are not reflected in the balance sheets as ICE Clear Credit does not take legal ownership of the assets as the value-related risks and rewards of these assets remain with the clearing members. Any gain or loss accrues to the clearing member. ICE Clear Credit has the ability to access the accounts where these assets are held at the financial institutions and depositories in the event of a clearing member default. ICE Clear Credit does not, in the ordinary course, rehypothecate or re-pledge these assets. As of December 31, 2019, pledged original margin and pledged guaranty fund balances are \$13.7 billion and \$523.1 million, respectively. As of December 31, 2018 pledged original margin and pledged guaranty fund balances were \$13.0 billion and \$256.0 million, respectively.

## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### **6. Clearing House Operations (continued)**

To provide a tool to address the liquidity needs of the clearing house and manage the liquidation of margin and guaranty fund deposits, ICE Clear Credit has entered into Committed Repurchase and Committed FX Facility Agreements (Committed Facilities). As of December 31, 2019, ICE Clear Credit had \$300 million in Committed Repo to finance U.S. dollar and euro deposits, €250 million in Committed Repo to finance euro deposits, and €1.9 billion in Committed FX Facilities to finance euro payment obligations. The ICE Clear Credit Committed Repurchase Facilities are available in U.S. dollars and euros. The Committed Repo arrangements provide the clearing house with an additional liquidity tool that may be utilized in the event there is a need to convert high quality sovereign debt into cash on a same-day basis during a market disruption that makes it difficult to sell and settle such sovereign debt on a same-day basis. The Committed FX Facility provides the clearing house with the ability to convert U.S. Dollars into Euros as needed.

#### **7. Markit Agreement**

ICE Clear Credit has entered into an agreement with Markit Group Ltd. (Markit) to license Markit's intellectual property related to Markit's indices. In exchange for these license rights, ICE Clear Credit has agreed to pay Markit 5% of its gross index clearing fee revenues on a global basis. Certain clearing members have ownership interests in Markit. For the years ended December 31, 2019 and 2018, ICE Clear Credit incurred fees to Markit of \$4.2 million and \$4.6 million, respectively, which is recorded as selling, general and administrative expenses in the accompanying statements of income. At December 31, 2019 and 2018, respectively, ICE Clear Credit had \$531,000 and \$618,000 recorded as payable related to this agreement and such amounts are recorded as a component of accounts payable and accrued liabilities in the accompanying balance sheets.

#### **8. Commitments and Contingencies**

ICE Clear Credit does not have any ongoing lease commitments as of December 31, 2019, as such lease commitments reside with ICE. ICE Clear Credit's share of rental expense with ICE affiliates was \$477,000 and \$597,000 for the years ended December 31, 2019 and 2018, respectively, with such amount being recorded as selling, general and administrative expenses in the accompanying statements of income.

Certain employees of ICE Clear Credit have received compensation awards in the form of ICE stock. The stock compensation accounting for such awards is performed at ICE, with \$4.9 million and \$5.6 million of compensation expense being allocated to ICE Clear Credit for the years ended

## ICE Clear Credit LLC

### Notes to Financial Statements (continued)

#### **8. Commitments and Contingencies (continued)**

December 31, 2019 and 2018, respectively. Also, ICE Clear Credit is required to reimburse ICE for the fair market value of such awards at each vesting date. As of December 31, 2019, the expected future payments under this arrangement, based on ICE's stock price on December 31, 2019, are \$8.9 million. The future payment amount will change with future fluctuations in the stock price of ICE.

In May 2018 ICE established an Employee Stock Purchase Plan, or ESPP. Certain employees of ICE Clear Credit have participated in the ESPP, and \$111,000 of compensation expense was allocated to ICE Clear Credit for the year ended December 31, 2019.

From time to time, ICE Clear Credit is subject to legal proceedings and claims that arise in the ordinary course of business. However, ICE Clear Credit does not believe that the resolution of these matters will have a material adverse effect on its financial condition, results of operations, or liquidity. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially and adversely affected by any new developments relating to the legal proceedings and claims.

#### **9. Subsequent Events**

ICE Clear Credit has evaluated subsequent events through February 25, 2020, the date of issuance of these financial statements, and determined that no events or transactions met the definition of a subsequent event for purposes of recognition or disclosure in the accompanying financial statements.