



October 7, 2022

Via Electronic Submission

Mr. Christopher Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st St, N.W.
Washington, DC 20581

Re: Comments on CFTC Request for Information on Climate-Related Financial Risk

Intercontinental Exchange Inc., on behalf of itself and its subsidiaries (“ICE”), appreciates the opportunity to comment on the Commodity Futures Trading Commission (“CFTC” or “Commission”) Request for Information (“RFI”), seeking public comment on climate-related financial risk to better inform its understanding and oversight of climate-related financial risk as pertinent to the derivatives markets and underlying commodities markets. ICE addresses our comments to several specific questions asked by the CFTC regarding these draft principles. As discussed below, ICE is supportive of sustainable and impact investing and regulatory initiatives designed to improve transparency and comparability.

As background, ICE operates regulated global futures, options and swaps markets and derivatives clearing houses that promote price transparency and offer participants the opportunity to hedge and trade a variety of commodities and financial derivatives in regulated markets. ICE operates multiple trading venues, including 13 regulated exchanges and 6 clearing houses, which are strategically positioned in major market centers around the world, including the United States (“US”), United Kingdom (“UK”), European Union (“EU”), Canada, Asia Pacific and the Middle East. Our core products include contracts based on crude and refined oil, natural gas, power, coal, environmental commodities, sugar, cotton, coffee, cocoa, canola, frozen concentrated orange juice, CDS, currencies and equity indexes. Our markets provide participants with a means for trading and managing risks associated with price volatility, securing physical delivery of certain contracts, as well as enabling asset allocation or diversification. As an operator of regulated marketplaces, ICE is keenly interested in the issues raised by the RFI and appreciates the opportunity to comment.

Background

ICE is supportive of the CFTC’s goals to better understand climate-related financial risk related to derivatives markets and underlying commodities markets. ICE supports the Commission’s focus on these risks in furtherance of its purpose to promote responsible innovation, ensure the financial integrity of all transactions subject to the Commodity Exchange Act (“CEA”), and avoid systemic risk.¹

The derivatives markets help the global economy manage risk and play a key role in adding transparency and liquidity to financial markets. America’s financial markets have thrived through innovation and derivatives markets have evolved to meet market demand and to allow market participants to hedge risks. ICE anticipates continued growth in the derivatives markets particularly around environmental, carbon and climate-linked derivatives products, and encourages the CFTC to allow for continued innovation and development of new products in this area.

Moreover, ICE encourages the Commission to focus on its mission to promote the integrity, resilience, and vibrancy of the U.S. derivatives markets when considering regulatory actions related to climate-

¹ See at 87 FR at 34856.



related financial risk. The climate-related financial risk to a registrant or regulated entity will depend on that entities' purpose and function. For example, the role of a derivatives clearing organization ("DCO") is to manage the risk between the buyer and seller of financial instruments. DCOs' risk management frameworks are designed to address all types of risk, including climate-related financial risk. ICE believes that the CFTC's efforts to assess climate-related financial risk must recognize DCOs' current risk management practices to manage and mitigate risks. To be effective, ICE suggests that the CFTC focus on DCO tools to manage and mitigate the potential impact of climate-related financial risks.

The Commission should also recognize that registrants list and clear distinct products and markets and the impacts of climate-related financial risks will vary accordingly. Moreover, a DCO requires the flexibility currently provided in the CFTC's regulatory framework that allows a DCO to tailor its risk management practices to the unique risks of its products and markets. As with other types of risks, DCOs are best suited to measure and manage their climate-related financial risks.

In addition, ICE recommends that any risk management by registrants of climate-related financial risks should be permitted to be conducted at the enterprise level, rather than implemented at the registrant subsidiary level. In this vein, climate-related disclosure requirements and data reporting requirements should be considered at the parent holding company level and not at the registrant or registered entity level. Climate-related financial risk is macro in nature and runs across all business lines. Distinguishing the climate-related financial risk posed to an organization's subsidiaries that are registrants and registered entities would be a significant undertaking with little material benefit to the disclosure provided by the parent holding company on a firmwide basis. It is unclear how regulations aimed at registrants or registered entities advance existing efforts to measure the impact of climate-related financial risk at the enterprise level. Imposing requirements on registrants would duplicate existing enterprise-wide efforts or add unnecessary regulatory complexity without benefiting regulatory oversight. ICE urges the Commission to continue to work with other domestic and international regulators and standards setters as it considers any new action related to climate-risk.

Data

ICE recognizes the importance of high quality, dependable data to facilitate the management of risk during the ongoing energy transition. ICE, through its ICE Data Services business, offers a suite of pricing, market data, analytics, and related services, including data and tools relating to the impact of climate and other sustainability factors. ICE has invested in climate-related analytic tools to support our clients in their climate risk management programs.² ICE is also open to further engagements with the Commission to provide insight on what tools and services are available to the industry.

Furthermore, ICE does not believe the Commission should require reporting requirements around climate-related aspects of listed derivatives products, reported transactions, and/or open positions. However, ICE believes that listed derivatives, and the market data provided by them, will play a key role in managing the transition away from fossil fuels, particularly in providing orderly price discovery through trading on regulated exchanges. The transparency that listed derivatives products bring to the markets will be important information for the Commission and the market at large to consume, which is why ICE continues to champion the value of on-exchange transactions.

Risk Management

DCOs' current risk management frameworks should be designed to incorporate all types of risk, including climate-related financial risk. ICE recommends that the CFTC's efforts to assess climate-related financial risk recognize the current risk management practices that DCOs employ to manage these risks and believes the Commission's existing rules provide the flexibility to incorporate climate-related risks into its existing risk management requirements for registrants and registered entities.

² In December 2021, ICE acquired risQ which deploys data-driven technologies for managing physical climate risk. In July 2022, ICE expanded its climate risk offering with the acquisition of Urgentem, a provider of global corporate emissions and climate transition data.



ICE does however suggest that firms consider the physical and transitional risks and their impact. Firms should also ensure that climate change considerations are embedded throughout the enterprise risk management program. To that end, ICE published its inaugural stand-alone TCFD report in July 2022 which outlines ICE's risk management strategy to the risks and opportunities presented by climate change.³

Scenario Analysis and Stress Testing

The Commission asks whether there are climate forecasts, scenarios, or other data tools that would be helpful to its understanding of the exposure of registered entities or registrants to climate-related financial risk. In this regard, we note that the tools available to registrants and registered entities to assess their own climate-related financial risk are evolving and any Commission rules or guidance would be better as principles-based to avoid becoming quickly outdated.

For example, in reference to clearing houses, as part of existing risk management frameworks, DCOs look at historical peaks in stress tests and consider the results of hypothetical stress tests. As the impact of climate-related financial risks increases, stress test scenarios will include new historical peaks and revised hypothetical scenarios. Once further data becomes available, as more extreme weather events are incorporated into historical scenarios and hypothetical scenarios are better developed, the industry and the Commission will be better positioned to consider developing common standards and guidelines for extreme, but plausible scenarios. However, ICE believes that organizations need to continue to have flexibility in designing and applying scenario analysis and stress testing based upon assumptions and risk factors that are relevant to the entity in question.

In addition, measuring and managing climate related financial risks is often conducted at an enterprise level, rather than on a subsidiary level. Accordingly, we recommend that any Commission action recognize this approach. Further, because climate-related financial risks on registered entities or registrants may be measurable through means other than scenario analysis or stress tests, such techniques should not be mandated as a matter of course.

Disclosure

It is unclear how disclosure requirements of registrants or regulated entities advance the mission of the CFTC to promote the integrity, resilience, and vibrancy of the U.S. derivatives markets. As such, climate-related disclosure requirements and data reporting requirements should only be considered at the parent holding company level and not at the registrant or registered entity level. Climate-related financial risk is macro in nature and runs across all business lines. Distinguishing the climate-related financial risk posed to an organization's subsidiaries that are registrants and registered entities would be a significant undertaking with little material benefit to the disclosure provided by the parent holding company on a firmwide basis.

Product Innovation

Pricing carbon is key to the transition to less dependency on fossil fuels. In this regard, ICE's markets play a leading role in facilitating the pathway to a net zero economy. In the same way that transparent price signals help balance supply and demand factors for other commodities, ICE's environmental markets provide transparent pricing across the carbon cycle to balance the supply and demand to conserve the world's finite net-zero carbon budget. Through ICE's network of exchanges and clearing houses, ICE has listed the first ever carbon allowance index future's product as well as numerous ETFs that facilitate the indexation of global carbon allowance markets. In our delivery of the suite of nature-based carbon credit futures, we have priced natural capital assets to 2030, a first in the marketplace allowing investors and project development a view into the price of nature. A sample of ICE's commodity market solutions include:

³ https://www.ice.com/publicdocs/2021_TCFD_Report.pdf.



- ICE's carbon allowance markets value the negative externality of pollution and cover the four largest traded cap and trade markets in the world. By making hydrocarbon combustion more expensive, these markets help reduce CO₂ being released into the atmosphere. Over 100 billion tonnes of carbon have traded on ICE since we acquired the Climate Exchange in 2010. In 2021, 18 billion tonnes of carbon allowances traded, which is equivalent to half of the world's energy-related emissions and representing a notional value of \$1 trillion.
- ICE's global carbon index future provides access to the cost of pollution across a basket of our carbon allowance futures in one financially settled instrument. This can be utilized by a variety of stakeholders as a store of carbon value, which can subsequently be liquidated to invest in physical carbon allowances or carbon credits in the future.
- ICE's renewable electricity certificate ("REC") markets value the positive externality of carbon-free electricity generation. By increasing the value of electricity from renewable energy, our price signals promote the allocation of capital to these sources of energy. Over 250 million renewable energy certificates have traded on our markets since 2010.
- Our carbon credit markets value the positive externalities generated from several reduction and removal projects. Over 3 billion tonnes of these project-based credits have traded on our markets.
- Our nature-based carbon credits value the positive externality of carbon sequestration and storage thereby providing incentives to allocate capital towards the conservation and cultivation of natural capital.

ICE's renewable identification number ("RIN"), renewable volume obligation ("RVO") and low carbon fuel standard ("LCFS") markets value the positive externality of emission reductions in the transportation sector. Over 1.4 billion RINs have traded on our platforms.

Carbon Credit Markets

ICE is a leader in environmental markets with the equivalent of more than 50% of the world's total annual emissions footprint and nearly 95% of all globally traded environmental futures and options trading on ICE exchanges. Corporates subject to carbon cap and trade programs and renewable fuel standards use environmental markets to meet obligations and manage their risk. Market participants can deliver carbon allowances, carbon credits and renewable energy certificates into a range of registries in Europe and North America. ICE supports the further development of project-based carbon markets both in the US and globally. Project-based carbon markets are a market-driven solution to climate change.

In addition, a growing number of corporates are making net zero commitments. In addition to reducing their emissions, to meet these commitments, corporates will be looking to the environmental markets to offset their carbon liability, invest in green attributes or benchmark their internal cost of carbon. In addition, policy makers rely on price signals from environmental markets to gauge the effectiveness of their programs and achieve desired outcomes — such as driving investment in renewables and the use of less-carbon-intensive fuels. Investors can use the price signals from the markets and indices to help assess climate transition risk in their portfolios, and then access liquidity pools for managing risk and allocating capital to benefit from energy transition opportunities.

ICE supports the Commission taking a leadership role in supporting and enhancing the integrity of project-based carbon markets. More specifically, ICE believes the Commission can play a role in establishing standards for market infrastructure providers, such as carbon registries. While ICE additionally supports the standardization of project-based carbon credits, we believe the Commission should avoid duplicating the significant progress in developing credit protocols and programs that have been made in connection with state and regional cap and trade programs.



Conclusion

ICE appreciates the opportunity to comment on the climate-related financial risk RFI. ICE commends the CFTC for its consideration of these important issues. ICE shares the Commission's policy goals to address the threat of climate change and related financial risks and requests that the Commission consider its comments in light of those goals.

Respectfully submitted,

A handwritten signature in blue ink that reads "Elizabeth K. King". The signature is fluid and cursive, with the first name being the most prominent.

Elizabeth K. King
President, ICE ESG & Chief Regulatory Officer
Intercontinental Exchange, Inc.