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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72297; File No. SR-ICEEU-2014-06)

June 2, 2014

Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing of Proposed Rule Change Regarding Investment Losses and Non-Default Losses

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 May 30, 2014, ICE Clear Europe Limited (“ICE Clear Europe”) 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 primarily by ICE Clear Europe. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The principal purpose of the proposed changes is to amend the ICE Clear Europe Clearing Rules to address investment losses and non-default losses (as described in more detail below) that may affect the clearing house.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, ICE Clear Europe included statements concerning the purpose of and basis for 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 these statements.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

ICE Clear Europe submitted proposed amendments to its Rules in order to adopt new provisions relating to certain investment losses on margin and guaranty fund contributions provided by clearing members (as defined more fully below, "investment losses") as well as other losses to the clearing house arising other than from a clearing member default (as defined more fully below, "non-default losses"), including losses from general business risk and operational risk. The amendments would (i) require ICE Clear Europe to apply a specified amount of its own assets to cover non-default losses and investment losses ("loss assets") and (ii) require clearing members in all product categories to make contributions (referred to as "collateral offset obligations") to cover investment losses (but not other non-default losses) that exceed the available clearing house loss assets. The proposed rules would also limit the clearing house's liability for losses arising from a failure of a bank or similar custodian.

The Bank of England has indicated that ICE Clear Europe will be required to have rules addressing the allocation of non-default losses that threaten the clearing house's solvency and to have plans to maintain continuity of services if such continuity is threatened as a result of such losses, commencing May 1, 2014. Plans to address losses from general business risk are also an element of the CPSS-IOSCO Principles for Financial Market Infrastructures (the "PFMIs").³ The amendments are separate from the clearing house's existing rules and planned rule changes

³ We also note in this regard that the Commodity Futures Trading Commission has adopted a similar requirement for systemically important derivatives clearing organizations and "subpart C" derivatives clearing organizations in CFTC Rule 39.33(b)(2), and that the Commission has proposed a similar requirement for certain "covered clearing agencies" in proposed Rule 17Ad-22(e)(15). Standards for Covered Clearing Agencies, Release No. 34-71699 (Mar. 12, 2014).

that address allocation of losses resulting from clearing member defaults and related recovery and wind-down plans.

The proposed Rule amendments are described in detail as follows.

Part 1 of the Rules has been revised to include new definitions for “Investment Losses” and “Non-Default Losses,” which form the basis of the new loss allocation provisions in the proposed rules. Investment Losses means losses incurred or suffered by the clearing house arising in connection with the default of the issuer of any instrument and/or counterparty to any repurchase or reverse repurchase contract or similar transaction in respect of investment or reinvestment by the clearing house of margin (other than variation margin) or guaranty fund contributions other than a loss resulting from the clearing house’s failure to follow its own investment policies. By way of clarification, investment losses will be allocated separately from losses arising from a default, and accordingly, an investment loss relating to margin or guaranty fund contributions provided by a defaulting clearing member will be included in the calculation of investment losses. (The amount of investment losses will thus not be reduced by any amounts ICE Clear Europe may use from its default resources under Parts 9 and 11 of the Rules (including guaranty fund contributions or assessments) to address losses from a default). In addition, Investment Losses do not include custodial losses.

“Non-Default Losses” means losses suffered by the clearing house (other than Investment Losses) arising in connection with any event other than an event of default and which threaten the solvency of the clearing house. In addition, a new definition for “Collateral Offset Obligations” has been added, which refers to obligations of a clearing member arising pursuant to new Rule 919, as discussed below, to make payments to the clearing house in respect of Investment Losses, which offset obligations of the clearing house to pay the clearing member or

return assets in respect of margin provided to the clearing house by the clearing member. New definitions for “Custodian” (which is used in new Rule 919), and “Loss Assets” (assets of the clearing house itself that are intended to be applied to investment losses and non-default losses under Rule 919 as described below) have been added.

In Rules 111 and 905, conforming and clarifying changes to the description of various types of losses or liabilities that may be borne by the clearing house have been made, through addition of references to “claims” and “shortfalls,” in order to ensure consistent use of language throughout Rules where other references are made to losses.

The proposed changes would adopt new Rule 919, which includes the allocation rules for investment losses and non-default losses and procedures for applying collateral offset obligations. Under Rule 919(b), non-default losses will be satisfied by applying the available loss assets designated by the clearing house and then other available capital or assets of the clearing house. Investment losses, on the other hand, will first be satisfied by applying the available loss assets provided by the clearing house, and thereafter by collateral offset obligations as discussed herein. The amount of loss assets provided by ICE Clear Europe will initially be USD 90 million (pursuant to Rule 919(p)), subject to adjustment by the clearing house by circular from time to time. ICE Clear Europe will not have an obligation to replenish the amount of loss assets, if applied to non-default losses or investment losses.

Pursuant to Rule 919(c), if there is an investment loss in an amount greater than the then-available loss assets, all clearing members will be required to indemnify the clearing house and pay collateral offset obligations to the clearing house in accordance with Rule 919(d). The clearing house will publish a circular including certain required details of any investment loss and collateral offset obligations due. The amount of such payment is determined pursuant to

Rule 919(d), and is based on the proportion of a clearing member's aggregate initial margin and guaranty fund contributions (for all product categories) to the aggregate initial margin and guaranty fund contributions of all clearing members (for all product categories) (in any case other than margin and contributions of defaulting clearing members that are applied or included in the net sum calculation under the Rules as a result of the default). Under Rule 919(e), the collateral offset obligation of a clearing member shall not exceed the total of all initial margin and guaranty fund contributions (across all accounts and product categories) that it has deposited with the clearing house at the time of the event giving rise to the investment loss. To the extent the investment losses exceed the amount of available loss assets and the capped collateral offset obligations of clearing members, clearing members would not have further obligations to make payments to the clearing house in respect thereof.

Collateral offset obligations are due at the time specified by the clearing house, under Rule 919(f), and will be payable in accordance with the procedures for collection of margin under Rule 302 and the Finance Procedures. Collateral offset obligations may, at the election of the clearing house, be offset against the obligation of the clearing house to return initial margin or guaranty fund contributions, and will be collected pursuant to a call for margin from a proprietary account of the clearing member. (In the case of a defaulting clearing member, the clearing house may include the collateral offset obligation in any net sum (to reduce any net sum otherwise payable to the defaulting clearing member) or offset it against any other obligation of the clearing house to return any remaining margin or guaranty fund contributions after application in respect of the default). Collection of the collateral offset obligation from the proprietary account of a clearing member is not intended to preclude a clearing member from passing the cost of the collateral offset obligation to its Customer(s), to the extent the obligation

relates to customer account margin or otherwise to a customer and to the extent permitted by applicable law.

If the clearing house subsequently recovers amounts in respect of an investment loss, Rule 919(h) provides for allocating the recovery to clearing members on a pro rata basis in proportion to their collateral offset obligations satisfied (after repaying the clearing house for any of its own assets applied in excess of the loss assets or any other persons for their assets applied).

Pursuant to Rules 919(i), the obligation of a clearing member to make collateral offset obligations is separate from, and does not reduce, its obligation to provide margin and to make guaranty fund contributions or guaranty fund assessment contributions under the existing rules. Under Rule 919(j), if the clearing house calls for collateral offset obligations in excess of that actually required, it will credit the excess to the relevant clearing members' proprietary accounts, from which it may be withdrawn in accordance with the usual procedure for withdrawal of excess margin under Part 3 of the Rules.

Rule 919(k) provides that the obligation to provide collateral offset obligations under Rule 919 applies independently from the powers of assessment following clearing member defaults in other parts of the Rules, and notes for clarification that the limits on assessment in Rules 917 and 918 for the F&O and FX product categories do not affect the liability of clearing members for collateral offset obligations. Rule 919(l) clarifies that the exercise of rights under Rule 919 does not constitute a Clearing House Event (i.e., a payment default or insolvency of the clearing house). Rule 919(m) provides for payments of collateral offset obligations to be made in accordance with the general procedures for payments under Part 3 of the Rules and the Finance Procedures, subject to the clearing house's setoff and netting rights under the Rules.

Under Rule 919(n), the clearing house is not required to pursue any litigation or other action against any person in respect of unpaid amounts (including those representing an investment loss or non-default loss). As discussed above, to the extent the clearing house recovers amounts in respect of an investment loss, Rule 919(h) provides for allocating such recovery to clearing members that have paid collateral offset obligations. Rule 919(o) allows the clearing house to make currency conversions in making determinations under Rule 919.

As discussed above, Rule 919(p) establishes the initial level of loss assets at USD 90 million. The clearing house may change the level of loss assets from time to time by Circular. Pursuant to Rule 919(q), ICE Clear Europe must notify clearing members of the amount of loss assets used from time to time. The clearing house is not required to replenish the amount of loss assets if used, although it may elect to do so. Separately, Rule 919(q) also provides that the clearing house may replenish any regulatory capital as required to bring it in compliance with applicable laws at any time, including following an investment loss or other non-default loss. However, no such recapitalization will result in any obligation of any clearing member to pay collateral offset obligations, or the size of any investment loss, being reduced. In addition, replenishment of required regulatory capital does not in itself require, or result in, a replenishment of loss assets.

Under Rule 919(r), the clearing house is not liable to any clearing member, customer or any other person for losses arising from a failure of a payment or security services provider, including a Custodian such as a payment or custody bank, securities depository or securities settlement system.

Other related changes are made in Parts 11, 12 and 16 of the Rules. A change is made in Rule 1103(e) to allow the loss assets to be held together with other clearing house contributions

to the guaranty fund (without affecting the limitations in the existing rules and Rule 919 on the use of such assets). (As a result of this change, each clearing house contribution is no longer required to be held in a separate account, although the three clearing house guaranty fund contributions and the loss assets are required to be held separately from other clearing house assets.) Conforming changes to definitions relating to custodians are made in Rule 1201.

New Rule 1606(b) is added to address certain matters relating to the investment of customer collateral in the form of cash provided by FCM/BD Clearing Members under applicable CFTC regulations. The revised rule confirms that such cash can only be invested in U.S. treasury securities in accordance with applicable law. The rule further provides that FCM/BD Clearing Members must direct the clearing house whether to so invest such cash or to leave it uninvested (and deems the clearing member to have instructed the clearing house to invest such collateral if it does not provide direction).

ICE Clear Europe believes that the proposed rule changes are consistent with the requirements of Section 17A of the Act⁴ and the regulations thereunder applicable to it, including the standards under Rule 17Ad-22.⁵ 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, contracts, and transactions. Neither Section 17A of the Act⁷ nor Rule 17Ad-22⁸

⁴ 15 U.S.C. 78q-1.

⁵ 17 CFR 240.17Ad-22.

⁶ 15 U.S.C. 78q-1(b)(3)(F).

⁷ 15 U.S.C. 78q-1.

⁸ 17 CFR 240.17Ad-22.

specifically addresses non-default losses of the type contemplated by the proposed rules. Nonetheless, ICE Clear Europe believes that the proposed rule changes are consistent with the Act and the regulations thereunder applicable to ICE Clear Europe, in particular, Section 17(A)(b)(3)(F),⁹ because ICE Clear Europe believes that the new rules will enhance the clearing house's ability to bear such losses. This will in turn further the clearing house's ability to continue operations if faced by investment or non-default losses, which will facilitate prompt and accurate settlement of securities transactions and, to the extent applicable, derivative agreements, contracts and transactions and contribute to the safeguarding of securities and funds which are in the custody or control of ICE Clear Europe or for which it is responsible, as set forth herein.

ICE Clear Europe has developed the proposed rules to satisfy paragraphs 29A and 29B under the UK's Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001, Schedule, as inserted by the Financial Services and Markets Act 2000 (Over the Counter Derivatives, Central Counterparties and Trade Repositories) (No. 2) Regulations 2013. Rules addressing allocation of investment and non-default losses are also contemplated under the PFMI. Consistent with these requirements, the proposed rules are designed to allocate investment losses (i.e., losses from a default under an investment) to the clearing house and clearing members, while other non-default losses (i.e., other losses not resulting from clearing member default) are allocated only to the clearing house. The rules further limit the liability of the clearing house for losses resulting from a failure of a Custodian—losses that are outside of the control of the clearing house but which could threaten the solvency of the clearing house. ICE Clear Europe does not expect that these rules will affect the ordinary course operation of the clearing house or its existing protections for

⁹ 15 U.S.C. 78q-1(b)(3)(F).

the securities and funds in its custody or control or for which it is responsible. ICE Clear Europe believes that the proposed rule changes will enhance the stability of ICE Clear Europe if it experiences significant investment losses or non-default losses, by providing new resources to cover such losses. The proposed rules will also provide greater certainty for clearing members and the clearing house itself as to the scope of resources that will be available to cover such losses and the liability of the clearing house and clearing members for such losses. Taken together, the amendments will thus promote the prompt and accurate clearance and settlement of contracts cleared by ICE Clear Europe, consistent with the requirements of Section 17A(b)(3)(F).¹⁰

The amendments also are consistent with the relevant requirements of Rule 17Ad-22, and in particular the financial resources requirements of Rule 17Ad-22(b)(2-3).¹¹ ICE Clear Europe does not propose to change the amount of financial resources (both pre-funded resources and potential assessment resources) currently available to support its clearing operations in any product category. The amendments would provide an additional financial resource to address investment losses and non-default losses. In addition, ICE Clear Europe believes that the changes will enhance its ability to continue clearing operations following an investment loss or non-default loss and provide it and market participants with greater certainty as to the financial resources that will be available to the clearing house following such losses.

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

¹¹ 17 CFR 240.17Ad-22(b)(2)-(3).

B. Self-Regulatory Organization's Statement on Burden on Competition

ICE Clear Europe does not believe the proposed rule changes would have any material impact, or impose any material burden, on competition not necessary or appropriate in furtherance of the purposes of the Act.

The rule amendments will by definition impose additional potential costs on clearing members in investment loss scenarios, as they may be required to make collateral offset obligations, up to the defined maximum amount. The limitation on liability for custodial losses may also impose costs on clearing members. As discussed above, ICE believes this approach is warranted in light of the need to allocate such losses and implement recovery and wind-down plans as a result of such losses, as required under applicable UK legislation. Moreover, ICE Clear Europe does not believe these costs are likely to have a material impact on the ordinary course operation of the clearing house, as they are relevant only under extreme non-default loss scenarios where the alternative could be clearinghouse failure or insolvency.

In terms of access to the clearing house, ICE Clear Europe is not proposing to change its standards for clearing membership or financial requirements for clearing membership. As such, ICE Clear Europe does not believe the changes will reduce access by clearing members to the clearing house. While there will be additional potential costs for clearing members, the limit on collateral offset obligations is intended to provide clearing members with greater certainty as to the extent of their financial obligations to the clearinghouse, and to limit their maximum potential liability. As a result, the amendments may make it easier for some market participants to become members, and a failure to adopt the amendments could, in ICE Clear Europe's view, dissuade some market participants from being members. As a result, ICE Clear Europe does not believe the amendments will reduce clearing member access to the clearing house. In addition,

ICE Clear Europe does not believe the proposed amendments are likely to adversely affect competition among clearing members. The proposed rules will apply to all clearing members in the same way. Enhanced certainty, and greater stability of the clearing house in the event of non-default losses, may also benefit the market for cleared derivatives generally, which in turn may enhance competition.

In terms of the impact on customers of clearing members, it is possible that the added costs to clearing members of potential collateral offset obligations, and the limitation on liability for custodial losses, will result in higher costs for customers in some circumstances. As with the costs on clearing members themselves, ICE Clear Europe believes that the proposed rule changes are warranted in light of the UK requirements to allocate investment and non-default losses, and benefits of enhanced financial resources and stability for the clearing house. In addition, ICE Clear Europe does not believe that the potential additional costs will have a significant burden on competition, as they apply to all clearing members equally.

ICE Clear Europe also does not believe the rule amendments will adversely affect the ability of market participants to continue to clear transactions or otherwise limit market participants' choices for clearing transactions. ICE Clear Europe expects that, in light of the PFMI and applicable regulatory requirements in the US and EU, other clearing organizations will similarly need to develop procedures for addressing non-default losses. The rule amendments are intended to provide a stronger framework for the clearing house to deal with non-default loss events and keep clearing services in operation despite such losses. This should generally enhance the ability of market participants to continue to clear derivative products, reduce systemic effects on the cleared markets generally and reduce the risk of failure of a clearinghouse (which would generally be expected to have an adverse impact on competition).

To the extent market participants have greater certainty as to how investment and non-default losses would be handled by the clearing house, they may have greater confidence in clearing generally, which will also tend to enhance the stability and strength of the market for cleared products, consistent with the goals of the Act.

For the foregoing reasons, the proposed rules are, in ICE Clear Europe's view, appropriate in furtherance of the purposes of the Act and other legal requirements applicable to ICE Clear Europe. The clearing house does not believe that the proposed amendments will impose any burden on competition not necessary or appropriate in furtherance of the purpose of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Comments relating to the rule changes were solicited from clearing members by Circular No. C14/056 (May 2, 2014). ICE Clear Europe has received comments from the Futures Industry Association and comments provided on behalf of various clearing members. These comments raised certain objections to the proposed rules, including that (i) allocation of investment losses in respect of an FCM customer account is inconsistent with CFTC Rule 1.29(b), (ii) allocation of investment losses would create undue and potentially unlimited and unquantifiable risk to clearing members, (iii) the proposed rules lack a formula for determining the amount of loss assets provided by ICE Clear Europe, and should require that ICE Clear Europe replenish the loss assets, (iv) collateral offset obligations should not be netted against unrelated payment obligations of ICE Clear Europe, (v) loss assets should not be used for both investment losses and non-default losses, (vi) the loss assets and ICE contributions to the guaranty funds should each be held in a separate account, (vii) the manner of allocation of investment losses attempts should be revised, including to allocate investment losses between

customer accounts and proprietary accounts, based on product categories, and/or based on cash margin rather than total margin.

ICE Clear Europe has considered and disagrees with these comments. Specifically, ICE Clear Europe believes that in light of the provisions of proposed Rule 1606(b), the allocation of investment losses in respect of the FCM customer account is consistent with the requirements of CFTC Rule 1.29(b), and further that because of the cap on collateral offset obligations in Rule 919(e), the liability for collateral offset obligations is neither unlimited nor unquantifiable. ICE Clear Europe does not believe a defined formula for loss assets is necessary. In ICE Clear Europe's view, the proposed rule provides a significant additional resource to cover investment losses and non-default losses as compared to the current rules. For this reason, ICE Clear Europe does not believe it is necessary to provide separate resources for non-default losses and investment losses, or to have an obligation to replenish such assets or otherwise provide even more resources. Netting under Rule 919(f) would apply to obligations to return margin or guaranty fund contributions, which are not unrelated to investment losses, and in ICE Clear Europe's view is appropriate with a view to reducing unnecessary payment flows. ICE Clear Europe further does not believe it is necessary for loss assets and ICE Clear Europe guaranty fund contributions to be held in separate accounts, given that such amounts are kept separate from amounts provided by clearing members and the limitations on the use of such amounts are unchanged. In light of the limited scenarios in which the loss allocation rules of Rule 919 are expected to be used, and the fact that a loss may not be readily allocable to any particular clearing member, customer or product category, ICE Clear Europe does not believe it is desirable to attempt to allocate losses between customer and proprietary accounts, or to particular product

categories. ICE Clear Europe further believes that allocating based on overall initial margin and guaranty fund contributions is an efficient and equitable means of allocating the losses.

ICE Clear Europe notes that certain comments also suggested that ICE Clear Europe provide additional information and transparency concerning its investment policies. ICE Clear Europe is continuing to consider such changes, in consultation with clearing members, although it does not believe such changes would affect the proposed rules.

ICE Clear Europe will notify the Commission of any additional written comments received by ICE Clear Europe.

III. Date of Effectiveness of the Proposed Rule Change 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.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change 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-2014-06 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-2014-06. 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 that are filed with the Commission, and all written communications relating to the proposed rule change 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, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. 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/notices/Notices.shtml?regulatoryFilings>.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ICEEU-2014-06 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.¹²

Kevin M. O'Neill
Deputy Secretary

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¹² 17 CFR 200.30-3(a)(12).