



8011-01p  
SECURITIES AND EXCHANGE COMMISSION  
(Release No. 74213; File No. SR-ICEEU-2015-004)

February 5, 2015

Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing of Proposed Rule Change Relating to Additional European Sovereign CDS Contracts

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 27, 2015, ICE Clear Europe Limited (“ICE Clear Europe”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as 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 change is to provide for the clearance of additional CDS contracts that are Western European sovereign CDS contracts referencing the Kingdom of the Netherlands, the Republic of Finland, the Kingdom of Sweden and the Kingdom of Denmark (the “Additional WE Sovereign Contracts”).

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 and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in

---

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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.

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

1. Purpose

The purpose of the proposed rule change is for ICE Clear Europe to offer clearing of Western European sovereign CDS contracts referencing four additional reference entities: the Kingdom of the Netherlands, the Republic of Finland, the Kingdom of Sweden and the Kingdom of Denmark. ICE Clear Europe currently clears CDS contracts referencing six other Western European sovereigns: Ireland, the Republic of Italy, the Portuguese Republic, the Kingdom of Spain, the Kingdom of Belgium and the Republic of Austria.<sup>3</sup> ICE Clear Europe believes clearance of the Additional WE Sovereign Contracts will benefit the markets for credit default swaps on Western European sovereigns by offering to market participants the benefits of clearing, including reduction in counterparty risk and safeguarding of margin assets pursuant to clearing house rules.

The Additional WE Sovereign Contracts will constitute “Non-STEC Single Name Contracts” for purposes of the CDS Procedures and accordingly will be governed by Paragraph 10 of the CDS Procedures, consistent with treatment of the Western European sovereign CDS contracts currently cleared by ICE Clear Europe. Clearing of the Additional WE Sovereign Contracts will not require any changes to ICE Clear Europe’s existing Clearing Rules and

---

<sup>3</sup> See Securities Exchange Act Release No. 34-71920 (April 9, 2014), 79 FR 21331 (April 15, 2015) (File No. SR-ICEEU-2014-04) (order approving rule changes to clear Western European sovereign CDS contracts); Securities Exchange Act Release No. 34-73737 (December 4, 2014), 79 FR 73372 (December 10, 2014) (File No. SR-ICEEU-2014-18) (order approving rule changes to clear additional Western European sovereign CDS contracts) (the “Prior WE Sovereigns Orders”).

Procedures. In addition, clearing of the Additional WE Sovereign Contracts will not require any changes in ICE Clear Europe's risk management framework (including relevant policies) or margin model.<sup>4</sup>

## 2. Statutory Basis

ICE Clear Europe believes that clearing of the proposed Additional WE Sovereign Contracts is consistent with the requirements of Section 17A of the Act<sup>5</sup> and regulations thereunder applicable to it, including the standards under Rule 17Ad-22.<sup>6</sup> The Additional WE Sovereign Contracts are substantially similar to the other Western European sovereign CDS contracts currently cleared by ICE Clear Europe. The additional contracts will be cleared in the same manner as such other Western European sovereign CDS contracts, consistent with ICE Clear Europe's existing clearing arrangements and related financial safeguards, protections, risk management policies and procedures, and margin methodology (including those enhancements for Western European sovereign contracts previously adopted and approved in the Prior WE Sovereigns Orders). In ICE Clear Europe's view, clearing of the Additional WE Sovereign CDS contracts, under such terms and arrangements, is consistent with the prompt and accurate clearance of and settlement of securities transactions and derivative agreements, contracts and transactions cleared by ICE Clear Europe, the safeguarding of securities and funds in the custody or control of ICE Clear Europe and the protection of investors and the public interest, within the

---

<sup>4</sup> For a description of previously approved changes to ICE Clear Europe's risk management framework to accommodate clearing of Western European sovereign CDS contracts, see the Prior WE Sovereigns Orders. ICE Clear Europe has performed a variety of empirical analyses related to clearing of the Additional WE Sovereign Contracts under its margin methodology, including back tests and stress tests.

<sup>5</sup> 15 U.S.C. 78q-1.

<sup>6</sup> 17 CFR 240.17Ad-22.

meaning of Section 17A(b)(3)(F) of the Act.<sup>7</sup> Clearing of the Additional WE Sovereign Contracts will also satisfy the relevant requirements of Rule 17Ad-22,<sup>8</sup> as discussed below.

Financial Resources. ICE Clear Europe will apply its existing margin methodology for Western European sovereign CDS contracts to the Additional WE Sovereign Contracts. ICE Clear Europe believes that this model will provide sufficient margin to cover its credit exposure to its clearing members from clearing such contracts, consistent with the requirements of Rule 17Ad-22(b)(2) and Rule 17Ad-22(d)(14).<sup>9</sup> In addition, ICE Clear Europe believes the CDS Guaranty Fund, under its existing methodology, will, together with the required margin, provide sufficient financial resources to support the clearing of Additional WE Sovereign Contracts consistent with the requirements of Rule 17Ad-22(b)(3).<sup>10</sup>

Operational Resources. ICE Clear Europe will have the operational and managerial capacity to clear the Additional WE Sovereign Contracts as of the commencement of clearing, consistent with the requirements of Rule 17Ad-22(d)(4).<sup>11</sup> ICE Clear Europe believes that its existing systems used for sovereign CDS contracts are appropriately scalable to handle the clearing of the Additional WE Sovereign Contracts.

Settlement. ICE Clear Europe will use its existing settlement procedures (including for physical settlements), account structures and approved financial institutions as used in other sovereign CDS clearing for the Additional WE Sovereign Contracts. ICE Clear Europe believes

---

<sup>7</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>8</sup> 17 CFR 240.17Ad-22.

<sup>9</sup> 17 CFR 240.17Ad-22(b)(2), (d)(14).

<sup>10</sup> 17 CFR 240.17Ad-22(b)(3).

<sup>11</sup> 17 CFR 240.17Ad-22(d)(4).

that clearing of the Additional WE Sovereign Contracts will therefore be consistent with the requirements of Rule 17Ad-22(d)(5), (12) and (15).<sup>12</sup>

Default Procedures. ICE Clear Europe's existing Rules and default management policies and procedures for CDS will apply to the Additional WE Sovereign Contracts. ICE Clear Europe believes that the Rules and procedures allow for it to take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of clearing member insolvencies or defaults, including in respect of Additional WE Sovereign Contracts, in accordance with Rule 17Ad-22(d)(11).<sup>13</sup>

Governance. As discussed in further detail in the Prior WE Sovereigns Orders, although the margin model applicable to Western European sovereign CDS contracts, including the Additional WE Sovereign Contracts, may result in clearing members being subject to different margin charges based on their domicile and correlation with the underlying sovereign, ICE Clear Europe believes that the margin model properly aligns the margin requirements to the risks presented by particular clearing members. Moreover, the model operates without the need for ICE Clear Europe (or its management, Board or CDS Risk Committee) to exercise discretion concerning particular clearing members or the margin levels applicable to them. As a result, in ICE Clear Europe's view, the clearing of such contracts does not result in unfair discrimination among clearing members within the meaning of Section 17A(b)(3)(F) of the Act and Rule 17Ad-22(d)(8).<sup>14</sup>

---

<sup>12</sup> 17 CFR 240.17Ad-22(d)(5), (12) and (15).

<sup>13</sup> 17 CFR 240.17Ad-22(d)(11).

<sup>14</sup> 15 U.S.C. 78q-1(b)(3)(F); 17 CFR 240.17Ad-22(d)(8).

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

ICE Clear Europe does not believe the proposed Additional WE Sovereign Contracts would have any impact, or impose any burden, on competition not necessary or appropriate in furtherance of the purpose of the Act. ICE Clear Europe does not anticipate that its commencement of clearing for the Additional WE Sovereign Contracts will adversely affect the trading market for those contracts or for CDS more generally. Specifically, allowing clearing of the Additional WE Sovereign Contracts will provide market participants with the additional choice to have their transactions in these types of contracts cleared, and should generally promote the further development of the market for these contracts. Moreover, ICE Clear Europe has established fair and objective criteria for eligibility to clear the Additional WE Sovereign Contracts, consistent with its criteria for other cleared CDS.

Although clearance of Additional WE Sovereign Contracts may result in higher margin requirements for some clearing members as a result of the general wrong way risk component of the margin model, ICE Clear Europe believes that the model properly aligns margin requirements to the risks presented by such clearing members with respect to the Additional WE Sovereign Contracts. As a result, ICE Clear Europe is of the view that these changes are necessary and appropriate in furtherance of the purpose of the Act and the Commission's regulations thereunder, including the financial resources and risk management requirements of Rule 17Ad-22.<sup>15</sup> Furthermore, ICE Clear Europe does not believe that any such increase in margin requirements would significantly affect the ability of clearing members or other market participants to continue to clear CDS, consistent with the risk management requirements of the clearing house, or otherwise limit market participants' choices for selecting clearing services.

---

<sup>15</sup> 17 CFR 240.17Ad-22.

Accordingly ICE Clear Europe does not believe that clearance of the Additional WE Sovereign Contracts will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

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

Written comments relating to the acceptance of the Additional WE Sovereign Contracts for clearing have not been solicited or received. ICE Clear Europe will notify the Commission of any 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](mailto:rule-comments@sec.gov). Please include File Number SR-ICEEU-2015-004 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-2015-004. 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 also will be available for inspection and copying at the principal office of ICE Clear Europe and on ICE Clear Europe's website at <https://www.theice.com/clear-europe/regulation>.

All comments received will be posted without change; 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-2015-004 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.<sup>16</sup>

Brent J. Fields  
Secretary

[FR Doc. 2015-02751 Filed 02/10/2015 at 8:45 am; Publication Date: 02/11/2015]

---

<sup>16</sup> 17 CFR 200.30-3(a)(12).