



April 4, 2011

Mr. David Stawick
Secretary
Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581

RE: Registration and Regulation of Security-based Swap Execution Facilities (“SEF”s),
RIN Number 3235-AK93

Dear Mr. Stawick:

IntercontinentalExchange, Inc. (“ICE”) appreciates the opportunity to comment on the Securities and Exchange Commission (“SEC” or “Commission”) Proposed Regulation SB on security-based swap execution facilities (“Proposal”).

As background, ICE operates four regulated futures exchanges: ICE Futures U.S., ICE Futures Europe, ICE Futures Canada and the Chicago Climate Futures Exchange. ICE also owns and operates five derivatives clearinghouses: ICE Clear U.S., a Derivatives Clearing Organization (“DCO”) under the Commodity Exchange Act (“Act”), located in New York and serving the markets of ICE Futures U.S.; ICE Clear Europe, a Recognized Clearing House located in London that serves ICE Futures Europe, ICE’s OTC energy markets and also operates as ICE’s European CDS clearinghouse; ICE Clear Canada, a recognized clearing house located in Winnipeg, Manitoba that serves the markets of ICE Futures Canada; The Clearing Corporation, a U.S.-based DCO; and ICE Trust, a U.S.-based CDS clearing house. In particular, ICE operates Over the Counter (“OTC”) energy and credit markets, including the only CFTC regulated Exempt Commercial Market (“ECM”) with regulated significant price discovery contracts. In addition, ICE operates Creditex, an electronic platform for trading credit derivatives. As an operator of regulated OTC markets, ICE has a practical perspective on the operation and regulation of security-based swap execution facilities (“SEFs”).

ICE commends the SEC on Proposed Regulation SB. Central to the transparency requirements of Dodd Frank is the requirement that swaps be exchange traded. Dodd Frank instructs the SEC and CFTC to “promote pre-trade transparency in the swaps market” while allowing a SEF to offer trading through any means of interstate commerce.¹ The SEC balances these objectives by allowing SEF market participants to execute transactions subject to the mandatory clearing requirement on a central order book or on a Request for Quote (“RFQ”) system.

¹ Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 721 (July 21, 2010)



Indicative Quotes

Proposed regulation SB requires that all composite indicative quotes must be displaced to the entire market. In adopting final rules for acceptable execution methods, the Commission should clarify that all compliance rules, applicable to firm quotes must apply equally to RFQs and indicative quotes. Because there is no obligation on the initiator of an RFQ or a non-firm quote to execute at a given price, both can be used, at no risk to the initiator, to influence or manipulate firm quotes and, consequently, traded prices. For example, on January 18, 2011, the U.S. Treasury markets moved from 3.298% to 3.378% in twelve minutes when a trader “fat fingered” an RFQ to sell \$6 billion instead of \$6 million in U.S. securities.² Clearly, RFQs for large size that are not executed can still have a pronounced effect on traded prices. Similarly, a trader could use non-firm quotes, at no risk to himself, to “frame” an otherwise out-of-the-market firm quote. For example, if intrinsic “value” for an illiquid instrument is \$13-15, a trader could make his \$18 firm offer appear attractive by also showing a \$17 non-firm bid and a \$21 non-firm offer. The attractiveness of the \$18 firm offer could be further enhanced if the \$17 non-firm bid was for large size. As these simple examples indicate, it is imperative that the compliance regime around RFQs and indicative quotes be at least as rigorous as that for firm quotes.

Conclusion

We appreciate the opportunity to comment on proposed Regulation SB. Please do not hesitate to contact the undersigned at (770) 916.7832 or trabue.bland@theice.com if you have any questions regarding our comments.

Sincerely,

A handwritten signature in black ink that reads "Trabue Bland". The signature is written in a cursive, flowing style.

R. Trabue Bland
IntercontinentalExchange, Inc.

² “Fat Finger” Error Pressures Treasurys, Wall Street Journal, C13 (January 19, 2011).