

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-77427; File No. SR-ICEEU-2016-003)

March 23, 2016

Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Additions to Permitted Cover

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 March 11, 2016, 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. ICE Clear Europe filed the proposal pursuant to Section 19(b)(3)(A) of the Act,³ and Rule 19b-4(f)(4)(ii)⁴ thereunder, so that the proposal was effective upon filing with the Commission. 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 changes is to permit F&O Clearing Members of ICE Clear Europe to provide qualifying high-grade corporate and other non-sovereign or “semi-government” bonds (“Non-Sovereign Permitted Cover”) to ICE Clear Europe as Permitted Cover to satisfy original margin requirements for the F&O product category.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(4)(ii).

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 such 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 rule changes is to permit F&O Clearing Members of ICE Clear Europe to provide qualifying Non-Sovereign Permitted Cover to ICE Clear Europe to satisfy original margin requirements for the F&O product category. Non-Sovereign Permitted Cover will be limited to high grade (*i.e.*, rated "AA" equivalent and above) public sector, agency, municipal and corporate bonds meeting certain criteria, as discussed herein. ICE Clear Europe intends to commence accepting the Non-Sovereign Permitted Cover once all necessary regulatory approvals have been obtained. ICE Clear Europe believes that the changes will provide F&O Clearing Members access to a broader range of eligible collateral to support their margin obligations (and thus their clearing business), while continuing to satisfy the Clearing House's financial resources and risk management requirements.

In order to simplify the operational aspects of holding non-sovereign bonds (including addressing corporate actions), the Non-Sovereign Permitted Cover may be posted by F&O Clearing Members to ICE Clear Europe only through triparty accounts at

Euroclear or Clearstream Banking in accordance with the Finance Procedures. Under existing procedures for the use of triparty collateral service providers, the service provider is responsible for allowing only bonds that meet ICE Clear Europe's acceptable collateral requirements to be transferred into the triparty account by the F&O Clearing Member. ICE Clear Europe will thus inform the triparty collateral service providers of the detailed criteria for eligible Non-Sovereign Permitted Cover, and expect the triparty collateral service provider to reflect those criteria in its systems for accepting triparty collateral. ICE Clear Europe then monitors collateral in the triparty account periodically during the day. Consistent with its Collateral and Haircut Policy, ICE Clear Europe will continue to impose absolute and relative limits on the various types of Permitted Cover provided by F&O Clearing Members, including the Non-Sovereign Permitted Cover.

Rather than publish a specific list of acceptable Non-Sovereign Permitted Cover, ICE Clear Europe proposes to establish a set of credit, liquidity, pricing, currency, structural and other criteria applicable to Non-Sovereign Permitted Cover. Bonds that meet the criteria may be accepted as Non-Sovereign Permitted Cover. All Non-Sovereign Permitted Cover must be rated at least "AA" (or equivalent). ICE Clear Europe will periodically review issuers of Non-Sovereign Permitted Cover and decline to continue to accept bonds issued by an entity that falls below the AA equivalent for corporate issuance. The issuer of Non-Sovereign Permitted Cover (other than certain public sector debt) must also have an equity listing or a credit spread. For public sector debt that is either a fully or implicitly guaranteed "state" bond (*e.g., Deutsche Bundesländer* bonds), ICE Clear Europe will generally look to the rating of the relevant

ultimate sovereign (*e.g.*, German (Federal) Sovereign Bonds) but may consider a higher haircut to reflect a wider bid-ask spread and reduced relative and absolute limits.

The Non-Sovereign Permitted Cover must not be issued by a Clearing Member (or affiliate of a Clearing Member). In addition, Non-Sovereign Permitted Cover must not be issued by any entity linked to the energy market as determined by the Clearing House. The Non-Sovereign Permitted Cover must be fixed coupon or floating rate only, with no derivative aspects to its pricing and with no embedded caps or floors with respect to its price or coupon. In addition, covered bonds are not eligible. The Non-Sovereign Permitted Cover cannot be subject to any regulatory or legal constraint or third party claims that impair liquidation. The Non-Sovereign Permitted Cover must be redeemable only in a single currency, which must be one of EUR, USD, CHF, GBP, JPY, CAD, SEK, or NOK.

In terms of liquidity, the issue size of the particular bond to be used as Non-Sovereign Permitted Cover must be at least USD 500 million. In addition to any otherwise applicable relative and absolute limits under the Collateral and Haircut Policy, ICE Clear Europe will accept a maximum of five percent of the total outstanding bond issuance of the issuer of any Non-Sovereign Permitted Cover for any single F&O Clearing Member's (and its affiliates') original margin requirement. The absolute maximum amount acceptable of Non-Sovereign Permitted Cover of any single bond issue from any F&O Clearing Member (and its affiliated Clearing Members) is ten percent of that issue. The maximum amount of Non-Sovereign Permitted Cover provided by an F&O Clearing Member (and its affiliated Clearing Members) may not exceed USD 50 million or its equivalent. As an additional limit, an F&O Clearing Member's use of Non-

Sovereign Permitted Cover will be limited to twenty-five percent of its total F&O margin requirement.

Valuations of Non-Sovereign Permitted Cover will be made at end of day by the triparty collateral service provider. For public sector Non-Sovereign Permitted Cover (such as semi-government bonds and agency bonds), ICE Clear Europe will use the same pricing procedures as used for sovereign bonds. In terms of corporate bonds, while ICE Clear Europe anticipates that “AA” grade bonds will have readily available pricing, ICE Clear Europe will take additional steps to limit the use of illiquid bonds (for which pricing may be less available). Specifically, ICE Clear Europe will decline to accept those corporate bonds that breach 40 percent of haircut levels in the last ten days. In addition, where corporate bonds are not repriced on a regular basis (such as where the price has been unchanged for 3 or more days in a row under normal market conditions), ICE Clear Europe will review the continued acceptance of such bonds.

Non-Sovereign Permitted Cover comprising semi-government and agency bonds will be managed in the same manner as the relevant sovereign bonds (*i.e.*, added to the same absolute and relative limit applicable to such sovereign bonds under the ICE Clear Europe Collateral and Haircut Policy). ICE Clear Europe proposes to manage general wrong-way risk (“WWR”) with respect to corporate Non-Sovereign Permitted Cover in line with its existing WWR policy in its Collateral and Haircut Policy, such that a threshold per Clearing Member is established relative to member capital (currently 2.5% of capital). If a Clearing Member has a short equity position in excess of the threshold, it will be required to remove the Non-Sovereign Permitted Cover that presents WWR with respect to that position.

As set forth in Exhibit 5, ICE Clear Europe has revised its List of Permitted Cover to incorporate the criteria for Non-Sovereign Permitted Cover.⁵

2. Statutory Basis

ICE Clear Europe has identified the Non-Sovereign Permitted Cover as encompassing types of assets that would be appropriate for Clearing Members to post in order to meet original margin requirements for the F&O product category. ICE Clear Europe believes that accepting the Non-Sovereign Permitted Cover is consistent with the requirements of Section 17A of the Act⁶ and the regulations thereunder applicable to it, and is consistent with the prompt and accurate clearance of and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts and transactions, the safeguarding of securities and funds in the custody or control of ICE Clear Europe or for which it is responsible, and the protection of investors and the public interest, within the meaning of Section 17A(b)(3)(F) of the Act.⁷

Although it has not previously accepted collateral of the type of the Non-Sovereign Permitted Cover, ICE Clear Europe has developed a detailed set of criteria addressing credit risk, liquidity risk, structure, pricing, wrong way risk and other relevant factors for these instruments. ICE Clear Europe has further analyzed the trading characteristics and volatility of instruments that may qualify as Non-Sovereign Permitted

⁵ As a result of the addition of such criteria, which will only apply to initial margin for F&O Contracts, ICE Clear Europe will hereafter maintain and publish separate Lists of Permitted Cover for F&O Contracts and CDS Contracts. The List of Permitted Cover for CDS Contracts is unchanged from the current List of Permitted Cover.

⁶ 15 U.S.C. 78q-1.

⁷ 15 U.S.C. 78q-1(b)(3)(F).

Cover. As a result, ICE Clear Europe believes that the qualifying Non-Sovereign Permitted Cover will have characteristics that are appropriate for use as Permitted Cover for a Clearing Member's obligations in respect of original margin for F&O contracts. ICE Clear Europe will impose haircuts and limitations on the Non-Sovereign Permitted Cover under its Collateral and Haircut Policy, and will review and update such haircuts and limitations under that policy as necessary. Taken together, these criteria and related haircuts and limitations will restrict Non-Sovereign Permitted Cover to instruments that have a stable value and present low credit risk and volatility. As such, acceptance of such Permitted Cover is, in ICE Clear Europe's view, consistent with the financial resources and risk management requirements of the Clearing House.

For the reasons noted above, ICE Clear Europe believes that the acceptance of the Non-Sovereign Permitted Cover is consistent with the requirements of Section 17A of the Act and regulations thereunder applicable to it.

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

ICE Clear Europe does not believe the proposed amendments would have any impact, or impose any burden, on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed changes will provide additional flexibility to F&O Clearing Members by allowing them to use, on an optional basis, Non-Sovereign Permitted Cover (in addition to existing forms of Permitted Cover) to satisfy F&O original margin obligations. The changes will thus allow F&O Clearing Members access to a broader pool of potential collateral that may be used to satisfy margin obligations. As a result, ICE Clear Europe does not believe the changes will adversely affect the cost to clearing members or other market participants of clearing services. The changes will otherwise not affect the terms or conditions of any cleared contract or the standards or

requirements for participation in or use of the Clearing House. Accordingly, the changes should not, in the Clearing House's view, affect the availability of clearing or access to clearing services.

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

Written comments relating to the proposed changes to the rules 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

The foregoing rule change has become effective upon filing pursuant to Section 19(b)(3)(A)⁸ of the Act and Rule 19b-4(f)(4)(ii)⁹ thereunder because it effects a change in an existing service of a registered clearing agency that primarily affects the clearing operations of the clearing agency with respect to products that are not securities, including futures that are not security futures, swaps that are not security-based swaps or mixed swaps, and forwards that are not security forwards, and does not significantly affect any securities clearing operations of the clearing agency or any rights or obligations of the clearing agency with respect to securities clearing or persons using such securities-clearing service. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f)(4)(ii).

interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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-2016-003 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-2016-003. 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/clear-europe/regulation#rule-filings>.

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-2016-003 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.¹⁰

Brent J. Fields
Secretary

¹⁰ 17 CFR 200.30-3(a)(12).