

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-66341; File No. SR-ICEEU-2012-01)

February 7, 2012

Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Proposed Rule Change to Revise Rules and Procedures Related to Certain Technical and Operational Changes Relating to Credit Default Swap 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 24, 2012, 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**

ICE Clear Europe is in regular communication with representatives of its Clearing Members, as that term is defined in the Rules of ICE Clear Europe<sup>3</sup> (the “Rules”), in relation to the operation of clearing processes and arrangements. ICE Clear Europe has published these proposed rule and procedural changes, has carried out a public consultation process in respect of all of the changes described below, and has presented and agreed to the changes described below with its Clearing Members. These changes seek to improve drafting and cross-references within the ICE Clear Europe Rules and CDS Procedures, and to clarify the timing and operation of various clearing processes, for existing clearing activities. ICE Clear Europe takes the view that

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

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

<sup>3</sup> See ICE Clear Europe Rule 101. The Rules of ICE Clear Europe are available on-line at: <https://www.theice.com/Rulebook.shtml?clearEuropeRulebook=>.

the proposed rule changes are improvements in operational services that are administrative in nature.

## **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 Item III below. ICE Clear Europe has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.<sup>4</sup>

### **(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

#### **1. Purpose**

The proposed changes were set out in revisions to the Rules and CDS Procedures that were published in circular no. C11/170 published on November 25, 2011 (available on the Internet website of ICE Clear Europe at:

[https://www.theice.com/publicdocs/clear\\_europe/circulars/C11170\\_att1.pdf](https://www.theice.com/publicdocs/clear_europe/circulars/C11170_att1.pdf) and

[https://www.theice.com/publicdocs/clear\\_europe/circulars/C11170\\_att2.pdf](https://www.theice.com/publicdocs/clear_europe/circulars/C11170_att2.pdf)). ICE Clear Europe makes these rule changes for the purpose of specifying technical operational changes relating to CDS Contracts (as defined at ICE Clear Europe Rule 101), principally those that arise under its

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<sup>4</sup> Per discussions with Shearman & Sterling, LLP, counsel to ICE Clear Europe, the staff has made minor modifications to the text of the summaries prepared by ICE Clear Europe to (1) incorporate information from the form filed by ICE Clear Europe addressing the statutory basis for the proposed rule change, (2) remove conclusory language from the description of the rule changes, and (3) revise the description of certain of ICE Clear Europe's existing rules and processes solely for purposes of clarification. Telephone conference between Russell Sacks and Michael Blankenship, Shearman & Sterling LLP, and Andrew Bernstein, Securities and Exchange Commission, Division of Trading and Markets, on February 6, 2012.

rules on an occasional basis as part of the end-of-day price submission process by Clearing Members.

Specifically, these changes can be grouped into three categories:

First, under the current Rules, CDS Contracts that arise following the end-of-day pricing process give rise to non-cleared transactions that may later be submitted for clearing. However, since the applicable CDS Contract is typically intended to be cleared between the parties, and since trades that arise following end-of-day pricing arise at the direction of the clearing house, ICE Clear Europe believes that it is more efficient and reduces risk for such CDS Contract to arise upon notice by ICE Clear Europe, rather than to require the applicable parties to submit the CDS Contract later. Once ICE Clear Europe has notified the two affected clearing members of a contract under Rule 401(a)(xi), the contract will stand, unless it is voidable under Rule 404 (for example due to illegality or manifest error). The first change therefore establishes Rule 401(a)(xi) to permit ICE Clear Europe to specify the time and terms of entry into a CDS Contract arising following the submission of end-of-day prices by a Clearing Member. This change gives rise to the majority of the proposed rule changes in the text of the ICE Clear Europe Rules and the CDS Procedures. As a practical matter, this change operationalizes a technical service by which the terms of a CDS Contract entered into following submission of end-of-day prices can be promptly cleared by ICE Clear Europe. In order to operationalize this change, certain conforming changes are required. For example, various Rules establishing procedures for other automatically effective CDS Contracts are amended to include new Rule 401(a)(xi). Also, a corresponding amendment amends Rule 602 to provide for Rule 602(c), which deems Clearing Members not to be in violation of Position Limits (as defined in the Rules) as a result of CDS Contracts that arise by notice of ICE Clear Europe. During consultations with Clearing

Members, it was pointed out that such CDS Contracts could otherwise cause a breach of Position Limits, if any are in place (which they currently are not). Rule 602(c) provides a procedure under which the Clearing Member can close out such a position within five business days of the applicable Position Limit adoption or determination date. In this manner, both the policy of ensuring the pricing process through automatically effective trades and the policy of ensuring Position Limits are respected. ICE Clear Europe notes that these provisions relating to accommodation of Clearing Members in respect of Position Limits that may be applicable to CDS Contracts that are automatically effective applies not only to Rule 401(a)(xi), but also to Rules 401(a)(v), (vi), and (x). In the case of Rule 401(a)(v), new Rule 602(c) would apply to CDS Contracts that arise from transactions generated by ICE Futures Europe or the ICE OTC Operator as a result of the operation of their contra trade, error trade, invalid trade, cancelled trade, error correction or similar policies and rules and procedures relating thereto or otherwise. In the case of Rule 401(a)(vi), new Rule 602(c) would apply to CDS Contracts that form as a result of another Contract being invoiced back by ICE Clear Europe. Finally, in the case of Rule 401(a)(x), new Rule 602(c) would apply to CDS Contracts arising pursuant to Rule 903(a)(xii), which generally governs the creation of new CDS Contracts between ICE Clear Europe and non-defaulting Clearing Members to replace any remaining CDS Contracts of a defaulting Clearing Member.

Second, settlement and coupon payments under CDS Contracts will, under the Rule changes, take place through the ICE Clear Europe's payment banking network used for other cleared products, and not through the CLS Bank International ("CLS") system. At present, Section 8.9 of the CDS Procedures provides that where a CDS Contract is to be settled in circumstances in which Rule 1514 (CDS Alternative Delivery or Settlement Procedure) does not

apply, relevant cash payments between ICE Clear Europe and CDS Clearing Members will take place through The Depository Trust and Clearing Corporation using CLS, unless otherwise specified by ICE Clear Europe in a circular prior to the date on which such cash payments are due. However, following consultation with Clearing Members, ICE Clear Europe has determined it is more efficient if settlement and coupon payments are effected through ICE Clear Europe's current payment system (which is also permitted by the current CDS Procedures). ICE Clear Europe has determined to harmonize the system described at Section 8.9 of the CDS Procedures into a single payment system. This is achieved through the deletion of Section 8.9 of the CDS Procedures. It should be noted that this proposed change also serves to further harmonize the ICE Clear Europe Rules and CDS Procedures with those of ICE Clear Credit LLC, the U.S.-based clearing agency affiliate of ICE Clear Europe.

Third, various immaterial other cross-reference and typographical amendments to the processes for submission of CDS Contracts are made. The typographical changes are as follows: (i) Section 4.2 of the CDS Procedures, the words "Bilateral CDS Contract" are changed to "Bilateral CDS Transaction", and (ii) Section 8.4 of the CDS Procedures, the words "submission of" are added. These changes are made solely to correct typographical and cross-reference drafting in the text of the Rules and make no substantive changes to the Rules.

As noted above, the proposed rule changes consist of technical rule changes that are designed to implement operational improvements that have been published for public consultation by ICE Clear Europe and discussed with and approved by the Clearing Members of ICE Clear Europe. In each case, the principal purpose of the proposed rule change is for the rule or procedural provisions to be updated to reflect such improvements, in particular relating to (i) CDS Contracts that arise as a result of the end-of-day pricing process and (ii) to settlement and to

coupon payments under CDS Contracts that will, under the rule changes, take place solely through ICE Clear Europe's payment banking network used for other cleared products, not through either such payment network or through third-party systems.

As regards the changes relating to CDS contracts, ICE Clear Europe has engaged in extensive private consultation with its CDS Clearing Members involving both operational and legal consultation groups and has presented the changes to its CDS Risk Committee, which approved the changes. ICE Clear Europe has also engaged in a public consultation process in relation to all the changes, pursuant to the Circulars referred to above, and as required under applicable U.K. legislation. This public consultation involved the publication of such Circulars on a publicly accessible portion of the Internet website of ICE Clear Europe. ICE Clear Europe has received no opposing views from its Clearing Members in relation to the proposed rule amendments and received no responses to its public consultations during the consultation period.

## 2. Statutory Basis

The proposed rule amendments incorporate changes that seek to improve drafting and cross-references within the ICE Clear Europe Rules and CDS Procedures, and to clarify the timing and operation of various clearing processes, for existing clearing activities. The proposed rule changes are improvements in the services of ICE Clear Europe that are administrative in nature. In particular, the changes relating to CDS Contracts arising following end-of-day pricing are being implemented to provide a more efficient mechanism for the clearing of CDS Contracts already agreed to by the applicable parties, and do not relate to the safeguarding of funds or securities or to the rights or obligations of ICE Clear Europe or its Clearing Members in relation to such CDS Contracts. The timing improvements arising from the faster processing of such agreed-to CDS Contracts does not impact the consistency of the services of ICE Clear

Europe with applicable requirements and standards under the Act. Similarly, the harmonization of payment systems for settlement and coupon payments does not impact the custody of securities or funds, nor does it impact the rights or obligations of ICE Clear Europe or its Clearing Members or the consistency of the payment systems with statutory requirements and standards. This is particularly so since the harmonized system is already operative and eligible for use under ICE Clear Europe Rules and CDS Procedures. Further, the changes do not change the substantial provisions of the Rules or CDS Procedures, or the rights and obligations of ICE Clear Europe Clearing Members, in relation to the underlying CDS Contracts, nor do they impact the guarantee fund or custody functions of ICE Clear Europe.

(B) Self-Regulatory Organization's Statement on Burden on Competition

ICE Clear Europe does not believe the proposed rule change would have any impact, or impose any burden, on competition.

(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 rule change have been solicited by ICE Clear Europe pursuant to public consultation processes in the Circular referred to above. No comments have been received. The time period for the public consultation required by U.K. law has closed, and ICE Clear Europe does not expect to receive any further written comments as a result of this process.

**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 (i) as the Commission may designate up to 90 days of such date 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-2012-01 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ICEEU-2012-01. 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 Section, 100 F



Street, N.E., Washington, D.C. 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. 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-2012-01 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>5</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>5</sup> 17 CFR 200.30-3(a)(12).