

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-71518; File No. SR-ICEEU-2014-01)

February 11, 2014

Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing of Proposed Rule Change Regarding New Permitted Cover

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 February 11, 2014, ICE Clear Europe Limited (“ICE Clear Europe”) filed with the Securities and Exchange Commission (“Commission”) the proposed changes to the rules 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 changes to the rules 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 permit Clearing Members of ICE Clear Europe to post certain Japanese Government Bonds (“JGBs”), Japanese Treasury Bills (“JTBs”) and Japanese Treasury Discount Bills (“JTDBs” together with JGBs and JTBs, the “New Permitted Cover”) to ICE Clear Europe in order to meet initial margin, original margin and certain other margin requirements, including delivery margin requirements. The New Permitted Cover will not be accepted to satisfy variation margin requirements or guaranty fund requirements. ICE Clear Europe commenced accepting the New Permitted Cover as of June 28, 2013.

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

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

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 proposing the New Permitted Cover. 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.

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

The purpose of ICE Clear Europe accepting the New Permitted Cover is to provide its Clearing Members with a greater range of high-quality collateral that can be posted to ICE Clear Europe to satisfy certain margin requirements.

ICE Clear Europe believes that the New Permitted Cover is of minimal credit risk comparable to that of other sovereign debt currently accepted by ICE Clear Europe as permitted cover for margin obligations. ICE Clear Europe further believes that the New Permitted Cover has demonstrated low volatility, including in stressed market conditions. Based on its analysis of the New Permitted Cover and its volatility and other characteristics, ICE Clear Europe has established initial valuation haircut levels for the New Permitted Cover, and will review and modify such haircuts from time to time in accordance with the Rules and procedures. In addition, each type of New Permitted Cover may only be used to satisfy margin requirements up to a specified concentration limit, which is subject to review and modification from time to time in accordance with the Rules and procedures. The concentration limit applies on an aggregate basis across all product categories.

Specifically, Japanese Government Debt may only constitute up to 10% of a Clearing Member's total initial and original margin requirement, up to a maximum amount of JPY 100 billion. Japanese Government Debt will be subject to a valuation haircut of three percent (3%), except that JGBs with a maturity of more than eleven (11) years will be subject to a valuation haircut of five percent (5%).

Consistent with existing ICE Clear Europe haircut policies, an additional haircut will apply where New Permitted Cover is used to cover a margin requirement denominated in a different currency, to cover the exchange rate risk.

For the avoidance of doubt, the New Permitted Cover cannot be used to satisfy variation margin requirements because variation margin must be paid in cash in the currency of the contract. In addition, the New Permitted Cover will not be accepted in respect of guaranty fund requirements.

ICE Clear Europe has identified New Permitted Cover as types of assets that would be appropriate for Clearing Members to post in order to meet initial margin and original margin requirements. ICE Clear Europe believes that accepting the New Permitted Cover is consistent with the requirements of Section 17A of the Act<sup>3</sup> and the regulations thereunder applicable to it, including the standards under Rule 17Ad-22,<sup>4</sup> and is consistent with the prompt and accurate clearance of and settlement of securities transactions, 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 meaning of Section 17A(b)(3)(F) of the Act in the same manner as other

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<sup>3</sup> 15 U.S.C. 78q-1.

<sup>4</sup> 17 CFR 240.17Ad-22.

collateral accepted by ICE Clear Europe.<sup>5</sup> In addition, in ICE Clear Europe's view, acceptance of the New Permitted Cover will satisfy the financial resources requirements of Rule 17Ad-22. ICE Clear Europe has determined, through analysis of the credit risk, liquidity, market risk, volatility and other trading characteristics of the New Permitted Cover, that such assets are appropriate for use as permitted cover for Clearing Member's obligations under the Rules, subject to the haircuts and limits described above, consistent with the risk management of the clearing house. In particular, the New Permitted Cover is a stable collateral type that presents minimal credit risk and low volatility. In this regard, the New Permitted Cover is similar to the other categories of sovereign debt that ICE Clear Europe currently accepts as permitted cover. Pursuant to ICE Clear Europe Rule 502, haircuts will be reviewed by ICE Clear Europe periodically and ICE Clear Europe may modify the haircuts in its discretion as it determines to be appropriate. Use of New Permitted Cover will also be subject to concentration limits, as discussed above.

For the reasons noted above, ICE Clear Europe believes that the proposed rule change and the New Permitted Cover are 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 changes to the rules 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 changes to the rules have not been solicited or received. ICE Clear Europe will notify the Commission of any written comments received by

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<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

ICE Clear Europe. The New Permitted Cover has been approved by both the Futures & Options and CDS Risk Committees.

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-2014-01 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-2014-01. 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 Room, 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 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-2014-01 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>6</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>6</sup> 17 CFR 200.30-3(a)(12).