

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66631; File No. SR-ICC-2012-03)

March 20, 2012

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change to its Risk Model to Reduce the Current Level of Risk Mutualization Among its Clearing Participants and to Modify the Initial Margin Risk Model so That it is Easier for Market Participants to Measure their Risk

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder² notice is hereby given that on March 8, 2012, ICE Clear Credit LLC (“ICC”) 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 ICC. 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 purpose of the proposed rule change (i.e., modifications to the ICC risk model) is to (1) reduce the current level of risk mutualization among ICC’s clearing participants (Modification #1) and (2) modify the initial margin risk model approach in a manner that will make it easier for market participants to measure their risk (Modification #2).

As discussed in more detail in Item II below, Modification #1 reduces the level of default resources held in the mutualized ICC guaranty fund and significantly increases the level of resources held in initial margin. Modification #2 modifies the initial margin risk model by removing the conditional Recovery Rate stress-scenarios and adding a new Recovery Rate

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

sensitivity component that is computed by considering changes in Recovery Rate assumptions that impact the Net Asset Value of the portfolio.

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

In its filing with the Commission, ICC 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 IV below. ICC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.³

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

The counterparty risk brought to ICC by any of its clearing participants is “collateralized” in the first instance by the clearing participant counterparty through its initial margin. In the event that any defaulting clearing participant’s initial margin and guaranty fund contributions are insufficient to cover its obligations, any such deficit is mutualized across all non-defaulting clearing participants through their respective guaranty fund contributions.⁴ The respective initial margin contributions of non-defaulting clearing participants are not mutualized and would not be used to satisfy the deficit of another clearing participant’s default.

Since its launch, ICC has maintained a very high percentage of its default resources in the mutualized guaranty fund. On average, the size of the guaranty fund has been roughly 50% of

³ The Commission has modified the text of the summaries prepared by ICC.

⁴ ICC has also contributed a total of \$50 million to the guaranty fund. \$25 million of ICC’s contribution is exposed prior to the mutualization of the non-defaulting clearing participants’ contributions and the second \$25 million of ICC’s contribution is mutualized along with the non-defaulting clearing participants’ contributions to the guaranty fund on a pro rata basis.

the initial margin held by ICC. Whereas, historically, traditional futures clearinghouse have maintained guaranty funds in an amount equal to roughly 5-7% of the initial margin held. In other words, at ICC, the clearing participant resources available to be mutualized in the guaranty fund versus the resources available as initial margin have been approximately ten times greater on a percentage basis than at traditional futures clearinghouses.

Modification #1 reduces the level of default resources held in the mutualized ICC guaranty fund and increases the level of resources held in initial margin (collateral).

The ICC guaranty fund is relatively much larger, as compared to traditional futures clearinghouses, in part because the guaranty fund model is currently designed to cover the uncollateralized losses that would result from the three single names that would cause the greatest losses when entering a state of default. Modification #1 incorporates into the initial margin risk model the single name that causes the greatest loss when entering a state of default (i.e., the single name that results in the greatest amount of loss when stress-tested). This change effectively collateralizes the loss that would occur from the single name that causes the greatest loss entering a state of default. Consequently, the amount of uncollateralized loss that would result from the three single names causing the greatest losses when entering a state of default is reduced, thereby reducing the amount of required guaranty fund contributions.

This change to the guaranty fund and initial margin risk model will, as noted above, result in a reduction of the guaranty fund requirements and an increase in the initial margin requirements. However, it is important to note that the decrease in the guaranty fund and the increase in initial margin requirements are not symmetrical. Instead, based upon current portfolios, for every \$1 decrease to the guaranty fund there will be a corresponding increase to the initial margin requirements of approximately \$5.

Modification #2 modifies the initial margin risk model by removing the conditional Recovery Rate stress-scenarios and adding a new Recovery Rate sensitivity component that is computed by considering changes in the Recovery Rate assumptions and their impact on the Net Asset Value of the Credit Default Swap portfolio. This modification will make it easier for market participants to measure their risk.

ICC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act and the rules and regulations thereunder applicable to it. ICC believes that by reducing the level of default resources held in the guaranty fund and increasing the level of default resources held as initial margin and by modifying the initial margin risk model as described above, it is able to safeguard securities and funds in its custody or control or for which it is responsible.

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

ICC 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 not been solicited or received. ICC will notify the Commission of any written comments received by ICC.

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. Please include File Number SR-ICC-2012-03 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-ICC-2012-03. 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 pm. Copies of such filings will also be available for inspection and copying at the principal office of

ICC and on ICC's website at

https://www.theice.com/publicdocs/regulatory_filings/ICEClearCredit_030812.pdf.

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-ICC-2012-03 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.⁵

Kevin O'Neill
Deputy Secretary

⁵ 17 CFR 200.30-3(a)(12).