

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69201; File No. SR-ICC-2013-03)

March 21, 2013

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change to Amend Rules Relating to Recovery and Resolution Arrangements

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 March 7, 2013, 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

ICC is proposing amendments to its clearing rules (“Rules”) relating to clearinghouse resolution and recovery following the exhaustion of available resources after a clearing participant (“Participant”) defaults or series of Participants default. The amendments would, among other matters: (i) establish a “cooling-off period” in cases of certain Participant defaults that result in guaranty fund depletion, in which case the liability of Participants and ICC for additional guaranty fund assessments would be capped for all defaults during that period; (ii) establish new procedures under which a Participant may terminate its status as a Participant, both in the ordinary course of business and during a cooling-off period, and related procedures for unwinding all positions of such a Participant and capping its continuing liability to ICC; (iii) provide for “haircutting” of mark-to-market margin gains and other outgoing payments by ICC

---

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

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

in situations where ICC determines, following a Participant default, that it is unlikely to have sufficient resources to make all such payments; (iv) permit ICC to temporarily suspend payments on cleared contracts where ICC determines that mark-to-market margin haircutting of gains will not be sufficient to address a shortfall in resources, or where there has been a failed auction of positions of a defaulting Participant; (v) revise procedures for the termination of clearing and wind-up of outstanding contracts; and (vi) eliminate rules permitting the forced allocation of CDS positions to non-defaulting Participants in the case of a failed default auction, and (vii) provide for the use of guaranty fund contributions of Participants that fail to participate in default auctions prior to the use of guaranty fund contributions of other Participants.

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.<sup>3</sup>

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

(1) Purpose

The proposed amendments are intended principally to address clearinghouse recovery and resolution arrangements. The proposed Rule amendments are described in detail as follows.

In Rule 102, new definitions of “Account,” “Client Origin Account” and “House Account” were added, and certain definitions no longer used in the Rules were removed. Rules

---

<sup>3</sup> The Commission has modified the text of the summaries prepared by ICC.

207 (“Termination of Participant Status”) and 209 (“Risk-Based Capital Requirement”) have been revised to conform to the new termination provisions in Rule 807. Further conforming changes and corrections are made in, and certain obsolete references have been removed from, Rules 312(b), 402, 406(g) and 503(a). A new subsection (b) has been added to Rule 604, which permits ICC to delay making outgoing mark-to-market margin payments on an intra-day basis in certain circumstances where a Participant has failed to make a mark-to-market margin payment to ICC on such day.

In addition to various conforming changes, Chapter 8 of the Rules has been revised to incorporate the new resolution and recovery provisions. Obsolete references to procedures for initial contributions by ICC to the guaranty fund have been removed from Rule 801 as they are no longer relevant. Rule 801(b)(vi) has been revised to cap ICC’s obligation to contribute additional assets to the guaranty fund at \$25 million in respect of any single Participant default and \$75 million in respect of all defaults during any cooling-off period. Rule 801(c)(iii) and Rule 802(b) add an additional tranche to the guaranty fund waterfall to provide for use of guaranty fund contributions of Participants that fail to participate in or perform their obligations in connection with default auctions prior to the use of guaranty fund contributions of other Participants. Additional collateral deposits of Participants that fail to participate in or perform their obligations in connection with default auctions are similarly applied before additional collateral deposits of other Participants. Conforming changes have been made to Rules 802(a) and (c).

Rule 802(d) has been revised to provide that additional collateral deposits may be called from Participants in anticipation of any charge against the general guaranty fund following a default, rather than only after a charge. In addition, under the revised Rule, a Participant is not

required to post an additional collateral deposit of more than 100% of its required guaranty fund contribution for any single default. However, a Participant is still liable for additional collateral deposits in respect of any specific wrong-way risk guaranty fund contribution. In addition, a retiring Participant is only obligated to make additional collateral deposits for defaults occurring prior to its termination date or, if applicable, during the cooling-off period. Rule 802(f) is being modified to provide that ICC may pledge assets in the guaranty fund to support borrowings to be used for default management purposes.

Rule 803 addressing the return of the guaranty fund has been revised to conform to the new termination of Participant status provisions in Rule 807. Rule 804 has been revised to conform to the new termination and final settlement provisions in Rule 810. The revised rule also clarifies that the single net amount owed by or owed to each Participant following termination shall take into account and be offset against available mark-to-market margin posted by ICC or the Participant.

New Rule 806 implements the “cooling-off period” concept. A “cooling-off period” is triggered by certain calls for additional collateral deposits or by sequential guaranty fund depletion within a 30-day period. Liability of Participants for additional collateral deposits is capped during the cooling-off period at three times the required guaranty fund contribution, regardless of the number of defaults during the period.

New procedures for termination of Participant status are added in new Rule 807. These apply both to ordinary course terminations outside of a default scenario and termination during a cooling-off period. Participants may retire from ICC during a cooling-off period by providing an irrevocable notice of termination during the first 10 business days of the period and must close out all positions within 30 days of such termination notice. A retiring Participant (other than

during a cooling-off period) must make a deposit of three times its required guaranty fund contribution at the time of notice and will remain liable for defaults occurring prior to its termination date. Together with Rule 803, Rule 807(b)(viii) provides for the return of guaranty fund contributions to a retiring Participant within 5 business days of the termination date, or at the end of the month in which the termination date occurs, whichever is later.

Rule 808(a) contains various new definitions used in the haircutting provisions in Rule 808, the suspension provisions of Rule 809 and the termination provisions of Rule 810. New Rule 808 establishes the mark-to-market margin haircutting mechanism. The core of Rule 808 is a procedure for “haircutting” the mark-to-market margin and certain other contractual payments owed by ICC to Participants. A determination to impose such haircutting may be made, once certain conditions are satisfied, including the following:

- (i) one or more Participant defaults have occurred but ICC has not yet determined and either paid or submitted a claim in respect of all the net amount due to or from the defaulter in respect of its proprietary account and its customer origin account; and
- (ii) ICC determines, based on one of several relevant tests, that its available resources are insufficient to pay all relevant outward mark-to-market margin and contractual payments and/or its available resources would be insufficient to cover the losses or shortfalls to ICC following a close-out of the defaulter’s positions.

A haircutting determination will not be made if a determination to suspend clearing has been made under Rule 809, clearing is being terminated under Rule 810, or an ICC insolvency or failure to pay has occurred. In the event of a haircutting determination, on each day during the “loss distribution period” specified by ICC, the net amount owed on such day to each Participant that is deemed to be a “cash gainer” in respect of its house or customer origin account (i.e., a

member that would otherwise be entitled to receive mark-to-market margin or other payments in respect of such account) will be subject to a percentage haircut. Corresponding adjustments are also made for “cash losers” (i.e., those who owe any amounts to ICC) to the extent amounts previously owed to them have been haircut. Haircuts are applied separately for the house and customer origin accounts, and on a net basis within those accounts.

New Rule 809 authorizes ICC to make a “suspension determination” for contracts where (i) its obligations to meet mark-to-market margin payments or the cost of auctioning off the positions of a defaulting Participant will not be satisfied through the haircutting procedure in Rule 808, (ii) following the determination of all net amounts owed in respect of a particular default, ICC may be rendered insolvent if it does not suspend clearing, or (iii) there has been a failed auction. In such case, during the suspension period, which is initially up to 2 business days, payments in respect of suspended contracts will be suspended.

New Rule 810 permits ICC to terminate contracts if, at the end of a suspension period under Rule 809, the conditions for suspension are still satisfied, or if conditions for suspension are satisfied but ICC does not commence a suspension. Rule 810 provides a procedure for determining the termination price for all contracts of the same type. To the extent the termination value payable by ICC for the terminated contracts exceeds available resources for those contracts, ICC’s obligations will be limited to the available resources.

Rule 20-605(c)(vii), which permitted the forced allocation of CDS contracts to Participants in the event of a failed auction or other inability to close-out or transfer relevant positions, has been removed following extensive discussions with Participants. ICC believes that the risks of this scenario are now addressed through the haircutting, suspension, and termination procedures discussed above, as well as the revisions to Rule 802(b) that permit the use of

guaranty fund contributions of Participants that fail to participate in a default auction prior to the contributions of other Participants.

(2) Statutory Basis

Section 17A(b)(3)(F) of the Act<sup>4</sup> requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions. ICC believes that the proposed rule changes are consistent with the Act and the regulations thereunder applicable to ICC, in particular, to Section 17(A)(b)(3)(F),<sup>5</sup> because ICC believes that the new resolution and recovery rules will facilitate the prompt and accurate settlement of swaps and contribute to the safeguarding of securities and funds associated with swap transactions which are in the custody or control of ICC or for which it is responsible. ICC has developed the new resolution and recovery rules in response to issues raised by, and following extensive consultation with, its Participants. Specifically, ICC believes that the proposed rule changes will enhance the stability of ICC following the default of one or more Participants and reduce the risk of ICC failure or insolvency. The revisions will in particular facilitate the orderly wind-down or termination of contracts affected by a default. The amendments also provide clearer limitations on the liability of Participants for assessments following defaults, and a clearer procedure for termination of Participant status.

(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.

---

<sup>4</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>5</sup> Id.

(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](mailto:rule-comments@sec.gov). Please include File Number SR-ICC-2013-03 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-2013-03. 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 p.m. 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\\_20130306.pdf](https://www.theice.com/publicdocs/regulatory_filings/ICEClearCredit_20130306.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-2013-03 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.<sup>6</sup>

Kevin O'Neill  
Deputy Secretary

---

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