

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-68119; File No. SR-ICEEU-2012-08)

October 29, 2012

Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing of Proposed Rule Change to Clear Western European Sovereign CDS 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 October 15, 2012, ICE Clear Europe Limited (“ICE Clear Europe”) 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 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

The purpose of the proposed rule change is to provide for the clearing of Western European Sovereign CDS contracts in connection with Paragraph 13 of ICE Clear Europe’s CDS Procedures on the following sovereign reference entities: Republic of Ireland, Italian Republic, Hellenic Republic, Portuguese Republic, and Kingdom of Spain (the “New Sovereign Contracts”).

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

---

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

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

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.<sup>3</sup>

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

ICE Clear Europe has identified Western European Sovereign CDS Contracts as a product that has become increasingly important for market participants to manage risk and express views with respect to the European sovereign credit markets. ICE Clear Europe believes clearance of the New Sovereign Contracts will facilitate the prompt and accurate settlement of swaps and contribute to the safeguarding of securities and funds associated with swap transactions. The terms of the New Sovereign Contracts will be governed by Paragraph 13 of the CDS Procedures. Clearing of the New Sovereign Contracts will not require any changes to ICE Clear Europe's existing Rules and Procedures.

ICE Clear Europe's risk management framework has several features designed to address particular risks of the New Sovereign Contracts. To address so-called "wrong way risk" involving correlation between the risk of default of an underlying sovereign and the risk of default of a clearing member that has written credit protection on such a sovereign, the New Sovereign Contracts are denominated in U.S. dollars, rather than Euro (and related margin and guaranty fund requirements are denominated in U.S. dollars). In addition, the rules contain limitations on self-referencing trades (i.e., trades where the clearing member is an affiliate of the underlying sovereign reference entity). Such trades may not be submitted for clearing, and if a clearing member subsequently becomes affiliated with the underlying reference entity, the rules applicable to New Sovereign Contracts provide for the termination of relevant positions.

---

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

The margin model applicable to New Sovereign Contracts will use a combination of ICE Clear Europe's spread risk margin calculation methodology used for other CDS trades and a separate margin calculation using a Monte Carlo simulation. The initial margin requirement will reflect the higher of the two calculations.<sup>4</sup>

ICE Clear Europe believes that the proposed rule change to add New Sovereign Contracts for clearing are consistent with the requirements of Section 17A of the Act and the CDS procedures and regulations thereunder applicable to it.

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, CDS Clearing Members or Others

Written comments relating to the proposed rule change 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

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

---

<sup>4</sup> ICE Clear Europe has performed a variety of empirical analyses related to clearing of the New Sovereign Contracts under its margin methodology, including back tests and stress tests.

(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. In addition, the Commission seeks comment generally on the following issues.

- (1) What would be the effect on the promotion of efficiency, competition, and capital formation of ICE Clear Europe clearing New Sovereign Contracts?
- (2) Would the clearing of New Sovereign Contracts create incentives among market participants to initiate trades that they otherwise would not? If so, would this increase or create new risks to the financial system or to the central counterparty that would offset the potential benefits of centralized clearing of New Sovereign Contracts?
- (3) Would ICE Clear Europe's risk management framework, as described above, appropriately address risks arising from ICE Clear Europe's clearing of New Sovereign Contracts, including but not limited to "wrong-way risk"?
- (4) Is the information set forth in this notice or otherwise available to the public sufficient to allow the public to provide meaningful comment on the proposed rule change?

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-2012-08 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-2012-08. 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/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-2012-08 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

---

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