

Sarah Williams
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September 2, 2014

**Re: ICE Clear Credit LLC Advance Notice of
Proposed Rule Change Pursuant to
Commission Rule 40.10**

VIA E-MAIL

Mr. Christopher Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

Dear Mr. Kirkpatrick:

ICE Clear Credit LLC (“ICC”), a registered derivatives clearing organization (“DCO”) under the Commodity Exchange Act, as amended (the “Act”) that has been designated by the Financial Stability Oversight Council as systemically important under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, hereby submits to the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Rule 40.10, the attached amendments to its clearing rules. ICE Clear Credit intends to implement these rule amendments following completion of the review period under Rule 40.10.

The purpose of the proposed rule change is to adopt new rules that will provide the basis for ICC to clear additional credit default swap contracts. Specifically, ICC is proposing to amend Chapter 26 of its Clearing Rules (the “ICC Rules”) to add Subchapter 26I and to amend the ICC Risk Management Framework to provide for the clearance of Standard Western European Sovereign CDS contracts (“SWES Contracts”). The initial launch of SWES Contracts at ICC will consist of: the Republic of Ireland, the Italian Republic, the Portuguese Republic, and the Kingdom of Spain. This submission includes the amended ICC Rules. A description of the principal changes contained in the amended rules follows. Certification of the changes to the ICC Rules and ICC Risk Management Framework pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.10 is also provided below.

SWES Contracts have similar terms to the Standard North American Corporate Single Name CDS contracts (“SNAC Contracts”) currently cleared by ICC and governed by Subchapter 26B of the ICC Rules, the Standard Emerging Sovereign CDS contracts (“SES Contracts”) currently cleared by ICC and governed by Subchapter 26D of the ICC Rules, and the Standard European Corporate Single Name CDS contracts (“SDEC Contracts”) currently cleared at ICC and governed by Subchapter 26G of the ICC Rules. Accordingly, the proposed rules found in Subchapter 26I largely mirror the ICC Rules for SNAC Contracts in Subchapter 26B, SES Contracts in Subchapter 26D, and SDEC Contracts in Subchapter 26G, with certain modifications that reflect differences in terms and market conventions between those contracts and SWES Contracts. SWES Contracts will be denominated in United States Dollars.

The proposed rules set forth in Subchapter 26I incorporate references to revised Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. (“ISDA”) on February 21, 2014 (the “2014 ISDA Definitions”). ICC has a rule filing currently pending with the Commission consisting of proposed amendments to the ICC Rules to incorporate references to the 2014 ISDA Definitions¹. This filing has a planned effective date, consistent with the industry implementation date of the 2014 ISDA Definitions, on September 22, 2014. The 2014 ISDA Definitions will be applicable to SWES Contracts cleared by ICC, and, as such, references to the 2014 ISDA Definitions are utilized throughout the SWES Contracts-related rules found in Subchapter 26I. Thus, the approval and implementation of the proposed rule change is dependent on the approval and implementation of the proposed rule change contained in the pending 2014 ISDA Definitions-related filing. Therefore, the text of the proposed rule change in Exhibit A should be read in conjunction with the text of the proposed rule change in Exhibit A to the pending 2014 ISDA Definitions-related filing.

Rule 26I-102 (Definitions) sets forth the definitions used for the SWES Contracts. An “Eligible SWES Reference Entity” is defined as “each particular Reference Entity included in the List of Eligible SWES Reference Entities,” which is a list maintained, updated and published from time to time by ICC containing certain specified information with respect to each reference entity. The remaining definitions are substantially the same as the definitions found in Subchapters 26B, 26D, and 26G of the ICC Rules, other than certain conforming changes.

ICC Rules 26I-203 (Restriction on Activity), 26I-206 (Notices Required of Participants with respect to SWES Contracts), 26I-303 (SWES Contract Adjustments), 26I-309 (Acceptance of SWES Contracts by ICE Clear Credit), 26I-315 (Terms of the Cleared SWES Contract), 26I-316 (Relevant Physical Settlement Matrix Updates), 26I-502 (Specified Actions), and 26I-616 (Contract Modification) reflect or incorporate the basic contract specifications for SWES Contracts and are substantially the same as under Subchapters 26B, 26D, and 26G of the ICC Rulebook.

Clearing SWES Contracts will not require any changes to ICC’s operational procedures, as the SWES Contracts operate similarly to the Standard Emerging European and Middle Eastern Sovereign Single Names, currently cleared by ICC. The addition of SWES Contracts to ICC’s product offering requires risk specific changes to the ICC Risk Management Framework, which are described below.

To provide for clearing of SWES Contracts, ICC’s Risk Management Framework has been revised to incorporate additional model features designed to generalize the currently established Specific Wrong Way Risk (“SWWR”) Initial Margin (“IM”) requirement. The proposed changes to the ICC Risk Management Framework generalize the SWWR relative to General Wrong Way Risk (“GWWR”). This generalization of Wrong Way Risk (“WWR”) is introduced to account for additional risk present in CDS instruments whose reference entities exhibit a high level of correlation with those Clearing Participants clearing the relevant name, or with an entity that is guaranteed by, or affiliated with, those Clearing Participants. To this effect, the offering of SWES Contracts introduces potential GWWR in the form of country/region of domicile WWR. Examples of GWWR related to SWES Contracts include but are not limited to a CP selling protection on its country of domicile, or a European domiciled Clearing Participant selling protection on European sovereign reference entities. To address such risks, an additional Jump To Default Risk (“JTDR”) requirement is established.

Accordingly, the Risk Management Framework contains revisions to the calculation of the portfolio JTDR requirement. Specifically, the calculations have been updated to incorporate the concept of WWR as described below in reference to the quantitative and qualitative approaches. These revisions will have no material impact on the size of the Guaranty Fund.

ICC’s proposed changes adopt a combination of qualitative and quantitative approaches to capture GWWR. Under the revised ICC Risk Management Framework, an additional contribution to the JTDR requirement will be required when Clearing Participants sell protection on SWES Reference Entities

¹See <http://www.cftc.gov/ucm/groups/public/@rulesandproducts/documents/ifdocs/rul071114icc002.pdf>. The text of the proposed rule change can also be found on ICC’s website at <https://www.theice.com/clear-credit/regulation>.

exhibiting a high degree of association with itself (quantitative approach) or by virtue of selling protection on its country of domicile (qualitative approach). For the qualitative case, ICC will require full collateralization of the additional Jump To Default (“JTD”) loss.

The quantitative approach applies to the additional risk arising from Clearing Participants selling protection on SWES Reference Entities, other than the Clearing Participant’s country of domicile, on which the Clearing Participant’s domicile has a high degree of correlation. If the additional SWES Contracts JTD losses and the dependence levels breach specific threshold amounts, additional GWWR collateralization will be required. The additional collateralization is a function of the level of correlation between the Clearing Participants and the SWES Reference Entities and will become more conservative as the level of correlation increases.

Core Principle Review:

ICC reviewed the DCO core principles (“Core Principles”) as set forth in the Commodity Exchange Act. During this review, ICC identified the following Core Principles as being impacted:

Participant and Product Eligibility: ICC has set appropriate standards in ICC’s policies and procedures for determining the eligibility of contracts. The SWES Contracts fulfill ICC’s standards regarding product eligibility.

Risk Management: The revisions to the ICC Rules and the ICC Risk Management Framework are consistent with the risk management requirements of Core Principle D.

Settlement Procedures: The SWES Contracts are subject to ICC’s current physical settlement rules under Chapter 22: CDS Physical Settlement.

Amended Rules:

The proposed changes consist of amendments to the ICC Rules and the ICC Risk Management Framework to provide for the clearance of SWES Contracts. ICC has respectfully requested confidential treatment for the ICC Risk Management Framework which was submitted concurrently with this submission.

Annexed as Exhibits hereto are the following:

- A. Proposed amendments to the ICC Rules

Certifications:

ICC hereby certifies that the proposed changes to the ICC Rules and the ICC Risk Management Framework comply with the Act and the regulations thereunder. The amended rules were unanimously recommended for approval by the ICC Risk Committee and unanimously approved by the ICC Board of Managers. There were no substantive opposing views to the revisions.

ICC further certifies that, concurrent with this filing, a copy of the submission was posted on ICC’s website, and may be accessed at: <https://www.theice.com/clear-credit/regulation>

ICC would be pleased to respond to any questions the Commission or the staff may have regarding this submission. Please direct any questions or requests for information to the attention of the undersigned at (312) 836-6883.

Sincerely,



Sarah Williams
Staff Attorney

Enclosures

cc: Board of Governors of the Federal Reserve System (by email)
Stuart E. Sperry, Board of Governors (by email)
Jeff Walker, Board of Governors (by email)
Brian O'Keefe, CFTC (by email)
Sarah Josephson, CFTC (by email)
John C. Lawton, CFTC (by email)
Phyllis Dietz, CFTC (by email)
Steve Greska, CFTC (by email)
Julie Mohr, CFTC (by email)
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