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Kevin R. McClear
General Counsel

March 23, 2012

Re: Modifications to the ICE Clear Credit Risk Model Rule Certification Pursuant to Section 5c(c)(1) of the Commodity Exchange Act and Commission Regulation 40.6

<u>VIA E-MAIL</u>
Mr. David Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

Dear Mr. Stawick:

ICE Clear Credit ("ICC") hereby submits, pursuant to Section 5c(c)(1) of the Commodity Exchange Act and Commodity Futures Trading Commission ("Commission") Regulation 40.6, a self-certification of Modifications to the ICC Risk Model (the "Risk Model Modifications") 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). ICC is registered with the Commission as a derivatives clearing organization. ICC intends to make the Risk Model Modifications effective no sooner than the tenth business day following the filing of this submission with the Commission at its Washington, D.C. headquarters and with its Chicago regional office.

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

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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.[1] 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 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.

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

Certification of the Amended Rules pursuant to Section 5c(c)(1) of the Act and Commission Regulation 40.6 is also provided below.

Certification:

ICE Clear Credit hereby certifies that the Risk Model Modifications comply with the Act and the regulations thereunder. There were no substantive opposing views to the Risk Model Modifications.

ICE Clear Credit 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) 836-6833.

Sincerely,

Kevin R. McClear

Kevin R. McClear
General Counsel

cc: John C. Lawton (by email)
Phyllis Dietz (by email)
Steve Greska (by email)
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