ICE CLEAR EUROPE

September 6, 2013

Ms. Melissa Jurgens
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

By Email: submissions@cftc.gov

Re: ICE Clear Europe Self-Certification Pursuant to Commission Rule 40.6

Dear Ms. Jurgens:

ICE Clear Europe Limited ("ICE Clear Europe"), a registered derivatives clearing organization under the Commodity Exchange Act, as amended (the "Act"), hereby submits to the Commodity Futures Trading Commission (the "Commission"), pursuant to Commission Rule 40.6 for self-certification, changes (the "Amendments") to its enhanced margin and guaranty fund methodology (the "Decomp Model") for cleared credit default swaps ("CDS"). The changes are to become effective on the business day following the tenth business day after submission, or such later date as ICE Clear Europe may determine.

Explanation and Analysis of the Operation, Purpose and Effect of the Amendments

The purpose of the Amendments is to modify the Decomp Model to address specific wrong way risk arising from cleared index CDS positions. The Amendments also modify the liquidation period used in determining the initial margin requirement for customer CDS positions and certain other aspects of the CDS Guaranty Fund calculation methodology.

ICE Clear Europe has developed its Decomp Model to permit appropriate portfolio margining between related index and single-name CDS positions by recognizing that index CDS instruments are for risk management purposes essentially a composition of specific single-name CDS.

In anticipation of the launch of customer clearing in CDS, and in furtherance of the ongoing European regulatory reform program designed to improve the safety and soundness of the European OTC derivatives markets, ICE Clear Europe proposes in the Amendments to adopt certain enhancements to the Decomp Model to address socalled specific wrong-way risk ("Specific Wrong-Way Risk"), which is additional risk arising from the fact that certain index CDS contracts include as reference entities Clearing Members or affiliates of Clearing Members ("self-referencing CDS"). Although ICE Clear Europe does not permit a Clearing Member to enter into or maintain a single-name CDS referencing itself or an affiliate, a self-referencing CDS position may arise through an index CDS where the Clearing Member or an affiliate is a component of the index.

Under the enhancements to the Decomp Model, ICE Clear Europe will require an additional contribution to the CDS Guaranty Fund from those Clearing Members that present Specific Wrong-Way Risk, up to a defined threshold. The additional Guaranty Fund contribution amount is based on the highest uncollateralized loss-given-default exposure among any of such self-referencing CDS positions of Clearing Members. In addition, each such Clearing Member will be required to provide additional initial margin to collateralize any Specific Wrong-Way Risk presented by its positions in excess of such threshold.

The Amendments would also enhance the CDS Guaranty Fund calculation methodology to cover the uncollateralized losses that would result from up to five single names—two Clearing Members and three other single names—that would cause the greatest losses when entering a state of default. Consequently, the amount of uncollateralized loss may increase in cases when the Clearing Members chosen to size the Guaranty Fund are reference entities in index CDS contracts.

ICE Clear Europe also proposes to change the liquidation period for calculation of initial margin for customer CDS positions. Currently, the Decomp Model provides portfolio risk coverage against at least 5-day market realizations. ICE Clear Europe intends to facilitate porting of client positions for a period of 2 days following the default of a Clearing Member. In order to account for situations when it may not be possible to port after the initial porting period, resulting in liquidation, the risk horizon for liquidation of customer CDS portfolios would be extended under the Amendments to 7 days. The increased liquidation period used in determining the initial margin requirement for customer CDS positions will only apply to the spread response, basis and interest rate risk components.

The Amendments' Compliance With Applicable Provisions of the Act, DCO Core Principles and the Commission's Regulations under the Act

The Amendments are potentially relevant to the following core principles: (B) Financial Resources, (D) Risk Management, (G) Default Rules and Procedures and (L) Public Information, and the applicable regulations of the Commission thereunder.

- *Financial, Managerial and Operational Resources.* ICE Clear Europe believes that the Amendments will enhance its financial resources for CDS clearing, consistent with the requirements of Commission Rule 39.11. In particular, the Amendments will require additional initial margin and CDS Guaranty Fund contributions to address Specific Wrong Way Risk. They will also promote the efficient use of margin for ICE Clear Europe and its clearing members and their customers, by facilitating appropriate portfolio margin treatment between single-name and index CDS positions under the Decomp Model. The Amendments will also strength financial resources, and related risk management, by adjusting the CDS Guaranty Fund contribution methodology and increasing the liquidation horizon for customer positions.

- *Risk Management.* As noted above, ICE Clear Europe believes that the Amendments will enhance its risk management with respect to CDS, consistent with the requirements of Commission Rule 39.13, including with respect to Specific Wrong Way Risk from index CDS positions. ICE Clear Europe believes that the other Amendments addressing the CDS Guaranty Fund methodology and the liquidation period for customer CDS positions also will enhance its ability to manage the risk of CDS positions.

- *Default Rules and Procedures.* The Amendments will facilitate the management of CDS positions carried by defaulting clearing members, including customer positions, in accordance with Commission Rule 39.16. The Amendments will provide for additional margin to address certain risks of clearing member default. The Amendments also increase the liquidation horizon with respect to customer positions, reflecting the expected default management process for those positions.

- *Public Information.* Concurrent with the filing of this submission, ICE Clear Europe has posted a notice of pending certification and a copy of this submission on its website at https://www.theice.com/notices/Notices.shtml?regulatoryFilings, in accordance with Rule 40.6 and the public information requirements of Core Principle L and Commission Rule 39.21.

ICE Clear Europe hereby certifies that the Amendments comply with the Act and the Commission's regulations thereunder.

There were no opposing views expressed to ICE Clear Europe by governing board or committee members, clearing members or market participants that were not incorporated into the Amendments.

If you or your staff should have any questions or comments or require further information regarding this submission, please do not hesitate to contact the undersigned at patrick.davis@theice.com or +44 20 7065 7738, Dee Blake, Director of Regulation, at dee.blake@theice.com or +44 20 7065 7752 or Paul Swann, President & Chief Operating Officer, at paul.swann@theice.com or +44 20 7065 7700.

Very truly yours,

Patrick Davis
Head of Legal and Company Secretary