ICE CLEAR EUROPE

April 9, 2014

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 - Margin Methodology Change for New Sovereign CDS Contracts

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 the amendments to its clearing rules discussed herein. The amendments are to become effective ten business days after submission, or such later date as ICE Clear Europe may determine.

Concise Explanation and Analysis

The purpose of the rule amendments is to modify certain aspects of its CDS margin methodology in connection with the acceptance for clearing of new CDS contracts that are Western European Sovereign CDS contracts referencing the Republic of Ireland, Italian Republic, Portuguese Republic, and Kingdom of Spain (the "New Sovereign Contracts"). ICE Clear Europe believes clearance of the New Sovereign Contracts will benefit the markets for credit default swaps on Western European sovereigns by offering to market participants the benefits of clearing, including reduction in counterparty risk and safeguarding of margin assets pursuant to clearing house rules. The terms of the New Sovereign Contracts will be governed by Paragraph 12 of the CDS Procedures. Clearing of the New Sovereign Contracts will not require any changes to ICE Clear Europe's existing Clearing Rules and CDS Procedures. However, ICE Clear Europe has updated its risk management framework (including relevant policies) and margin model as discussed herein.

ICE Clear Europe's CDS risk management framework, including the margin methodology (the "CDS Model"), has been enhanced to include several features designed to address particular risks of the New Sovereign Contracts. To address so-called general wrong way risk ("General 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 through a New Sovereign Contract on such sovereign, additional jump-to-default requirements for initial margin are established for portfolios that present such risk.

ICE Clear Europe proposes to adopt a combination of qualitative and quantitative approaches to capture General Wrong Way Risk. Under the enhanced CDS Model, an additional contribution to initial margin will be required when the seller of protection exhibits a high degree of association with an underlying Western European Sovereign reference entity by virtue of domicile (qualitative approach) or high spread return correlation (quantitative approach). To address General Wrong Way Risk arising from clearing member domicile, ICE Clear Europe will require full collateralization of the jump-to-default loss for a protection seller under a contract referencing the sovereign where the protection seller is domiciled.

Under the quantitative approach, which applies where the protection seller is not domiciled in the jurisdiction of the underlying sovereign, two types of thresholds are introduced: a loss threshold and a correlation threshold. Additional General Wrong Way Risk collateralization will be collected if both thresholds are exceeded. If the spread return correlation between the member and the sovereign is above the correlation threshold and the sovereign CDS jump-to-default loss is above the loss threshold, General Wrong Way Risk collateralization is assessed as a function of the spread return correlation and amount by which the loss threshold is exceeded. The charge becomes more conservative as the spread return correlation increases. The application of additional initial margin requirements under the quantitative approach is not subject to discretion, although the thresholds are subject to review by the CDS Risk Committee as part of its periodic review of ICE Clear Europe's margin methodology.

Other forms of wrong way risk arising from currency risk are also addressed. To mitigate the currency risk between a sovereign reference entity and a New Sovereign Contract involving that entity, and to facilitate greater market liquidity, the New Sovereign Contracts (and related margin and guaranty fund requirements) are denominated in U.S. dollars, rather than Euro. In addition, the existing clearing rules contain prohibitions 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 existing clearing rules applicable to New Sovereign Contracts provide for the termination of relevant positions.

The ICE Clear Europe CDS Risk Policy, the CDS Risk Model Description methodology document and CDS Wrong Way Risk Policy have been updated to account for these additional features of the risk model for the New Sovereign Contracts.

Compliance with the Act and CFTC Regulations

The rule amendments are potentially relevant to the following core principles: (B) Financial Resources, (C) Participant and Product Eligibility, and (D) Risk Management, and the applicable regulations of the Commission thereunder.

- *Financial Resources*. ICE Clear Europe will apply its existing margin methodology to the New Sovereign Contracts, with the enhancements to address General Wrong Way Risk discussed above. ICE Clear Europe believes that this model, including the additional initial margin that may be required to address General Wrong Way Risk, will provide sufficient margin to cover its credit exposure to its clearing members from clearing such contracts, consistent with the requirements of Core Principle B and Commission regulations thereunder. In addition, ICE Clear Europe believes the CDS Guaranty Fund, under its existing methodology, will, together with the required margin, provide sufficient financial resources to support the clearing of New Sovereign Contracts consistent with the requirements of Core Principle B and Commission regulations thereunder.

- *Participant and Product Eligibility*. ICE Clear Europe has established appropriate standards for determining the eligibility of contracts submitted to the clearinghouse for clearing, consistent with the requirements of Core Principle C. ICE Clear Europe believes that its existing systems are appropriately scalable to handle the additional New Sovereign Contracts, which are generally similar from an operational perspective to the CDS contracts currently cleared by ICE Clear Europe.

- *Risk Management*. ICE Clear Europe believes that it will be able to manage the risks associated with acceptance of the New Sovereign Contracts for clearing, consistent with the requirements of Core Principle D. As mentioned above, ICE Clear Europe's CDS risk management framework, including the margin methodology, has been enhanced to include several features designed to address particular risks of the New Sovereign Contracts. To address General Wrong Way Risk, additional jump-to-default requirements for initial margin are established for portfolios that present such risk. In addition, to mitigate the currency risk between a sovereign reference entity and a New Sovereign Contract involving that entity, the New Sovereign Contracts (and related margin and guaranty fund requirements) are denominated in U.S. dollars, rather than Euro.

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

ICE Clear Europe has received no substantive opposing views in relation to the proposed rule amendments.

ICE Clear Europe has posted a notice of pending certification and a copy of this submission on its website concurrent with the filing of this submission.
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