



February 29, 2016

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: ICE Clear Europe Self-Certification Pursuant to Commission Rule 40.6:
Acceptance of Non-Sovereign Permitted Cover

Dear Mr. Kirkpatrick:

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”), for self-certification pursuant to Commission Rule 40.6, the rule amendments discussed herein. The amendments 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.

Concise Explanation and Analysis

The purpose of the changes is to allow ICE Clear Europe F&O Clearing Members to provide qualifying high grade corporate and other non-sovereign or “semi-government” bonds (“Non-Sovereign Permitted Cover”) to satisfy original margin requirements for the F&O product category. ICE Clear Europe is not making any changes to its Clearing Rules or Procedures in connection with these amendments. Non-Sovereign Permitted Cover will not be accepted for variation margin or guaranty fund requirements.

Non-Sovereign Permitted Cover will be limited to high grade (*i.e.*, rated “AA” equivalent and above) public sector, agency, municipal and corporate bonds meeting certain criteria, as discussed herein. ICE Clear Europe intends to commence accepting the Non-Sovereign Permitted Cover once all necessary regulatory approvals have been obtained. ICE Clear Europe believes that the changes will provide F&O Clearing Members access to a broader range of eligible collateral to support their margin obligations (and thus their clearing business), while continuing to satisfy the Clearing House’s financial resources and risk management requirements.

In order to simplify the operational aspects of holding non-sovereign bonds (including addressing corporate actions), the Non-Sovereign Permitted Cover may be posted by F&O Clearing Members to ICE Clear Europe only through triparty accounts at Euroclear or Clearstream Banking in accordance with the Finance Procedures. Under existing procedures for the use of triparty collateral service providers, the service provider is responsible for allowing only bonds that meet ICE Clear Europe's acceptable collateral requirements to be transferred into the triparty account by the F&O Clearing Member. ICE Clear Europe will thus inform the triparty collateral service providers of the detailed criteria for eligible Non-Sovereign Permitted Cover, and expect the triparty collateral service provider to reflect those criteria in its systems for accepting triparty collateral. ICE Clear Europe then monitors collateral in the triparty account periodically during the day. Consistent with its Collateral and Haircut Policy, ICE Clear Europe will continue to impose absolute and relative limits on the various types of Permitted Cover provided by F&O Clearing Members, including the Non-Sovereign Permitted Cover.

Rather than publish a specific list of acceptable Non-Sovereign Permitted Cover, ICE Clear Europe is establishing a set of credit, liquidity, pricing, currency, structural and other criteria applicable to Non-Sovereign Permitted Cover. Bonds that meet the criteria may be accepted as Non-Sovereign Permitted Cover. All Non-Sovereign Permitted Cover must be rated at least "AA" (or equivalent). ICE Clear Europe will periodically review issuers of Non-Sovereign Permitted Cover and decline to continue to accept bonds issued by an entity that falls below the AA equivalent for corporate issuance. The issuer of Non-Sovereign Permitted Cover (other than certain public sector debt) must also have an equity listing or a credit spread. For public sector debt that is either a fully or implicitly guaranteed "state" bond (e.g., *Deutsche Bundesländer* bonds), ICE Clear Europe will generally look to the rating of the relevant ultimate sovereign (e.g., German (Federal) Sovereign Bonds) but may consider a higher haircut to reflect a wider bid-ask spread and reduced relative and absolute limits.

The Non-Sovereign Permitted Cover must not be issued by a Clearing Member (or affiliate of a Clearing Member). In addition, Non-Sovereign Permitted Cover must not be issued by any entity linked to the energy market as determined by the Clearing House. The Non-Sovereign Permitted Cover must be fixed coupon or floating rate only, with no derivative aspects to its pricing and with no embedded caps or floors with respect to its price or coupon. In addition, covered bonds are not eligible. The Non-Sovereign Permitted Cover cannot be subject to any regulatory or legal constraint or third party claims that impair liquidation. The Non-Sovereign Permitted Cover must be redeemable only in a single currency, which must be one of EUR, USD, CHF, GBP, JPY, CAD, SEK, or NOK.

In terms of liquidity, the issuer must have issued at least USD 500 million of bonds in the aggregate, and the issue size of the particular bond to be used as Non-Sovereign Permitted Cover must also be at least USD 500 million. In addition to any otherwise applicable relative and absolute limits under the Collateral and Haircut Policy, ICE Clear Europe will accept a maximum of five percent of the total outstanding bond issuance of the issuer of any Non-Sovereign Permitted Cover for any single F&O Clearing Member's (and its affiliates') original margin requirement. The absolute

maximum amount acceptable of Non-Sovereign Permitted Cover of any single bond issue from any F&O Clearing Member (and its affiliated Clearing Members) is ten percent of that issue. The maximum amount of Non-Sovereign Permitted Cover provided by an F&O Clearing Member (and its affiliated Clearing Members) may not exceed USD 50 million or its equivalent. As an additional limit, an F&O Clearing Member's use of Non-Sovereign Permitted Cover will be limited to twenty-five percent of its (and its affiliates') total F&O margin requirement.

Valuations of Non-Sovereign Permitted Cover will be made at end of day by the triparty collateral service provider. For public sector Non-Sovereign Permitted Cover (such as semi-government bonds and agency bonds), ICE Clear Europe will use the same pricing procedures as used for sovereign bonds. In terms of corporate bonds, while ICE Clear Europe anticipates that "AA" grade bonds will have readily available pricing, ICE Clear Europe will take additional steps to limit the use of illiquid bonds (for which pricing may be less available). Specifically, ICE Clear Europe will decline to accept those corporate bonds that breach 40 percent of haircut levels in the last ten days. In addition, where corporate bonds are not repriced on a regular basis (such as where the price has been unchanged for 3 or more days in a row under normal market conditions), ICE Clear Europe will review the continued acceptance of such bonds.

Non-Sovereign Permitted Cover comprising semi-government and agency bonds will be managed in the same manner as the relevant sovereign bonds (*i.e.*, added to the same absolute and relative limit applicable to such sovereign bonds under the ICE Clear Europe Collateral and Haircut Policy). ICE Clear Europe proposes to manage general wrong-way risk ("WWR") with respect to corporate Non-Sovereign Permitted Cover in line with its existing WWR policy in its collateral and haircut policy, such that a threshold per Clearing Member is established relative to member capital (currently 2.5% of capital). If a Clearing Member has a short equity position in excess of the threshold, it will be required to remove the Non-Sovereign Permitted Cover that presents WWR with respect to that position.

Compliance with the Act and Commission Regulations

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

- *Financial Resources.* As described herein, the rule amendments to allow acceptance of Non-Sovereign Permitted Cover are designed to give F&O Clearing Members increased flexibility on the types of Permitted Cover which may be used to cover original margin obligations for F&O Contracts. As discussed above, ICE Clear Europe is of the view that the Non-Sovereign Permitted Cover, in light of the specified criteria for acceptance, presents minimal credit and other risks and low volatility, and generally has characteristics that are appropriate for use as a financial resource to serve as margin for F&O Contracts. ICE Clear Europe has also imposed appropriate absolute and relative limits on the use such Non-Sovereign Permitted Cover. As a result, ICE Clear Europe believes the acceptance of Non-Sovereign

Permitted Cover is consistent with the requirements of Core Principle B and Commission Rule 39.11.

- *Risk Management.* Although it has not previously accepted collateral of the type of the Non-Sovereign Permitted Cover, ICE Clear Europe believes that it will be able to manage the risks associated with use by F&O Clearing Members of the Non-Sovereign Permitted Cover for margin requirements. As discussed above, ICE Clear Europe is adopting a detailed set of criteria for use in determining whether to accept particular Non-Sovereign Permitted Cover, which address such matters as credit standing, pricing, liquidity and wrong-way risk, among other relevant factors. ICE Clear Europe is also adopting absolute and relative limits on the use of Non-Sovereign Permitted Cover, and will review and update haircuts and other limitations under its existing collateral and haircut policy as appropriate. In addition, ICE Clear Europe has analyzed the trading characteristics and volatility of instruments that may qualify as Non-Sovereign Permitted Cover. In light of these criteria and limitations and its analysis, ICE Clear Europe believes that the Non-Sovereign Permitted Cover will present minimal credit, market and liquidity risks to the Clearing House, and that the risks presented can be managed through the Rules and risk management policies and procedures of the Clearing House. As a result, in ICE Clear Europe's view, acceptance of the Non-Sovereign Permitted Cover is consistent with the requirements of Core Principle D and Commission Rule 39.13.

As described herein, the amendments consist of revisions to the F&O List of Permitted Cover. A copy of such revisions is attached hereto.

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

ICE Clear Europe has received no substantive opposing views in relation to the 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 & Managing Director, at paul.swann@theice.com or +44 20 7065 7700.

Very truly yours,



Patrick Davis
Head of Legal and Company Secretary