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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66001; File No. SR-ICC-2011-03)

December 16, 2011

Self-Regulatory Organizations; ICE Clear Credit LLC; Order Approving Proposed Rule Change to Adopt ICC's Enhanced Margin Methodology

I. Introduction

On November 4, 2011, ICE Clear Credit LLC ("ICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change SR-ICC-2011-03 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder.[2] The proposed rule change was published for comment in the Federal Register on November 10, 2011.[3] The Commission received three comment letters regarding the proposal.[4] For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

This rule permits ICC to make certain modifications to its Risk Management Framework

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Securities Exchange Act Release No. 34–65699 (November 7, 2011), 76 FR 70206 (November 10, 2011). In its filing with the Commission, ICC included statements concerning the purpose of and basis for the proposed rule change. The text of these statements is incorporated into the discussion of the proposed rule change in Section II below.

4 See comment letter from Michael Hisler, Swaps & Derivatives Market Association, dated December 5, 2011 ("SDMA Letter") and comment letters from John Williams, Allen & Overy LLP, on behalf Bank of America Merrill Lynch, Barclays Capital, BNP Paribas, Citi, Credit Suisse Securities (USA), Deutsche Bank AG, JPMorgan Chase & Co., Morgan Stanley and UBS Securities LLC, dated December 1, 2011 and December 5, 2011 ("Allen & Overy Letters"). Allen & Overy LLP's December 5, 2011 letter amended its December 1, 2011 letter, with the sole change consisting of the addition of The Goldman Sachs Group, Inc., Nomura Securities International, and The Royal Bank of Scotland plc as signatories.

for clearing credit default swap ("CDS") contracts. These modifications are collectively referred to as the "Portfolio Decomposition Model." A fundamental aspect of ICC's Portfolio Decomposition Model is the recognition that CDS contracts cleared by ICC referencing broad-based securities indices are essentially compositions of specific single-name CDS contracts. Under the Portfolio Decomposition Model, ICC would, among other things, decompose CDS contracts referencing broad-based securities indices into single-name, index-derived positions with notional amounts corresponding to their relative weight in the index.

In connection with the decomposition of CDS contracts referencing broad-based securities indices, ICC will incorporate jump-to-default risk as a component of the risk margin associated with the clearing of CDS index products. Because ICC's prior methodology did not include jump-to-default margin requirements for CDS index products, this change will result in a better measurement of the risk associated with clearing these contracts. ICC believes that the Portfolio Decomposition Model also reflects a number of other enhancements to the ICC Risk Management Framework. Examples of these changes include: replacing standard deviation with mean absolute deviation as a measure of spread volatility, implementing an auto-regressive process to obtain multi-horizon risk measures, expanding spread response scenarios, introducing liquidity margin requirements for CDS index products, and base concentration charges.

In addition, implementation of the Portfolio Decomposition Model will also allow ICC to provide portfolio margin treatment between index CDS contracts and offsetting single-name CDS contracts. These portfolio benefits will generally involve ICC providing margin offsets across single-name CDS contracts and index CDS contracts that are held in a clearing participant's portfolio based on correlation measurements.

To date, ICC has not offered such portfolio margin treatment strictly for operational

reasons. However, ICC has informed the Commission that it will be operationally ready to offer portfolio margining with respect to its clearing participants' proprietary positions sometime in mid-December 2011. In its filing with the Commission, ICC noted that the portfolio margining treatment will only be available to ICC clearing participants' proprietary positions because ICC does not currently clear single-name CDS contracts for customer-related transactions. Accordingly, there are currently no customer-related positions in single-name CDS contracts that would qualify for portfolio margining treatment. Because the portfolio margining benefits afforded by the enhancements to the model are available to all of ICC's participants with respect to their proprietary positions, ICC believes that the proposed rule change does not unfairly discriminate with respect to similarly-situated participants.[5]

According to ICC, the enhancements effected by this proposed rule change have been reviewed and/or recommended by the ICC Risk Working Group, ICC Risk Committee, ICC Board of Managers, the Federal Reserve Bank of New York and the New York State Banking Department. In addition, ICC commissioned a third-party risk-management consultant to complete a model assessment of ICC's Portfolio Decomposition Model.

III. Comments

The Commission received three comment letters on the proposed rule change from two

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[5] ICC further indicated in its rule filing that it would expect to offer portfolio margining treatment to customer-related transactions following: (i) the commencement of clearing single-name CDS contracts for customer-related transactions and (ii) the granting of certain relief by the Commission and the Commodity Futures Trading Commission ("CFTC") in response to requests by ICC. Specifically, on November 7, 2011, ICC formally filed with the Commission a petition to provide portfolio margining treatment for customer-related positions in anticipation of ICC offering clearing of single-name CDS contracts for customer-related transactions in the future. Available at: http://www.sec.gov/rules/petitions.shtml. ICC filed a similar request with the CFTC on October 4, 2011, available at: http://www.cftc.gov/PressRoom/PressReleases/pr6145-11.

commenters, both of which were supportive of the changes.[6] Specifically, one commenter noted that by permitting portfolio margining to occur with respect to clearing participants' proprietary accounts, ICC's proposed Portfolio Decomposition Model would optimize more efficient risk management through netting, thereby promoting greater stability for central clearing.[7] This commenter noted that, because of the high degree of correlation between single-name CDS contracts and index CDS contracts, market participants often maintain hedged portfolios of these products, thereby increasingly the impact that these changes are likely to have throughout the market. The second commenter, which represented a group of eight large financial firms, expressed a similar view with respect to the ability of portfolio margining to bring about a more stable central clearing regime and concluded that the proposed rule change represented "an initial positive step for the industry."[8]

IV. Discussion

Section 19(b)(2)(B) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.[9] For example, Section 17A(b)(3)(F) of the Act[10] requires, among other things, that the rules of a clearing agency be designed to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds in the custody or control of the

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6 See supra note 4.

7 See SDMA Letter.

8 See Allen & Overy Letters.

9 15 U.S.C. 78s(b)(2)(B).

10 15 U.S.C. 78q-1(b)(3)(F).

clearing agency or for which it is responsible.

If approved, the proposed rule change would allow ICC to provide portfolio margining offsets to its participants to the extent that the participants maintain proprietary portfolios that hedge index CDS products against single-name CDS products. ICC believes that these changes promote greater capital efficiency and further contribute to the development of a national system for the prompt and accurate clearance and settlement of CDS contracts. The Commission carefully reviewed the proposed changes to ICC's Risk Management Framework to ensure that those changes continue to allow ICC to adequately manage the risks associated with the clearing of both index and single-name CDS contracts. In particular, the Commission notes that the Portfolio Decomposition Model will introduce new requirements to provide additional margin to address liquidity and jump-to-default risks in connection with the clearing of index CDS products. After considering these changes, including each of the representations made by ICC in the filing, the Commission believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act, including ICC's obligation to ensure that its rules be designed to assure the safeguarding of securities and funds in the custody or control of the clearing agency or for which it is responsible.

V. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act[11] and the rules and regulations thereunder.

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[11] 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[12] that the proposed rule change (File No. SR-ICC-2011-03) be, and hereby is, approved.[13]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[14]

Kevin M. O'Neill
Deputy Secretary

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12 15 U.S.C. 78s(b)(2).

13 In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

14 17 CFR 200.30-3(a)(12).