

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72755; File No. SR-ICEEU-2014-09)

August 4, 2014

Self-Regulatory Organizations; ICE Clear Europe Limited; Order Granting Accelerated Approval of Proposed Rule Change Relating to EMIR Requirements

I. Introduction

On June 30, 2014, ICE Clear Europe Limited (“ICE Clear Europe”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-ICEEU-2014-09 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 July 10, 2014.³ The Commission did not receive any comments on the proposed rule change. For the reasons discussed below, the Commission is granting approval of the proposed rule change on an accelerated basis.

II. Description of the Proposed Rule Change

The principal purpose of the proposed change is to amend the ICE Clear Europe Clearing Rules in order to comply with requirements under the European Market Infrastructure Regulation (including regulations and implementing technical standards thereunder, “EMIR”)⁴ that will

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 34-72540 (July 3, 2014), 79 FR 39429 (July 10, 2014) (SR-ICEEU-2014-09).

⁴ Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, as well as various implementing regulations and technical standards.

apply to ICE Clear Europe as an authorized central counterparty,⁵ and to make certain other amendments to harmonize its rules across different products and make improvements to its rules.

ICE Clear Europe states that the principal change will be to implement changes to the structure of customer accounts for cleared transactions to enhance segregation options for customers of Clearing Members. According to ICE Clear Europe, pursuant to EMIR,⁶ ICE Clear Europe will be required to keep separate records and accounts that will enable it to distinguish the assets and positions of: (i) one Clearing Member from those of any other Clearing Member, and (ii) either (A) a Clearing Member from those of its clients (“omnibus segregation”) or (B) a client of a Clearing Member from any other client of that Clearing Member (“individual segregation”). In addition, each of ICE Clear Europe's Clearing Members will be required (i) to keep separate records and accounts that enable them to distinguish in both accounts held with the Clearing House and their own accounts Clearing Member assets and positions from those of its clients; and (ii) to offer clients a choice of individual or omnibus segregation at the Clearing House. ICE Clear Europe has proposed revisions to its segregation models to implement this requirement to provide both individual segregation and omnibus segregation options.

The proposed rule change will establish two new types of individually segregated accounts for Clearing Members that are not registered as a futures commission merchant with the Commodity Futures Trading Commission (“CFTC”) and/or as a broker-dealer with the Commission (“Non-FCM/BD Clearing Members”): Individually Segregated Margin-flow Co-mingled Accounts and Individually Segregated Sponsored Accounts. With respect to an

⁵ ICE Clear Europe has separately filed certain related changes to its policies and procedures, including risk management policies. See Securities Exchange Act Release No. 34-72544 (July 3, 2014), 79 FR 39421 (July 10, 2014) (SR-ICEEU-2014-10) and Securities Exchange Act Release No. 34-72582 (July 10, 2014), 79 FR 41320 (July 15, 2014) (SR-ICEEU-2014-11).

⁶ EMIR Article 39(1)-(3).

Individually Segregated Sponsored Account, ICE Clear Europe proposes the concept of treating a customer as a Sponsored Principal, capable of entering into contracts with ICE Clear Europe directly, with a Clearing Member serving as Sponsor to be jointly and severally liable with the Sponsored Principal for the Sponsored Principal's obligations to ICE Clear Europe. ICE Clear Europe has proposed extensive revisions to its Clearing Rules designed to implement the Sponsored Principal model.

The proposed rule change will also establish multiple new types of omnibus accounts: Segregated Customer Omnibus Accounts (separately for each product: FX, F&O and CDS) and Segregated TTFCA Customer Omnibus Accounts (separately for each product: FX, F&O and CDS), as well as Omnibus Margin-flow Co-mingled Accounts.

ICE Clear Europe proposes making these new individually segregated and omnibus accounts available only to Non-FCM/BD Clearing Members and their customers. For Clearing Members registered as a futures commission merchant with the CFTC and/or as a broker-dealer with the Commission, as applicable ("FCM/BD Clearing Members") and their customers, ICE Clear Europe proposes that it will not offer individual client segregation at this time, and the existing account types and segregation requirements for client assets (which are required under applicable law) would be maintained.⁷

⁷ ICE Clear Europe has confirmed in the filing that the Bank of England has advised ICE Clear Europe that the requirement under EMIR for the Clearing House to offer an individual segregation model to Clearing Members (and in turn for Clearing Members to offer individual segregation to their customers) may be satisfied, in the case of an FCM/BD Clearing Member, if the Clearing Member introduces such customers to another Clearing Member (including an affiliate) that can offer an individually segregated account, to the extent permitted by applicable law. ICE Clear Europe is not at this time offering its Sponsored Principal model to U.S. Clearing Members or potential U.S. Sponsored Principals, and therefore provisions regarding U.S. Sponsored Principals (e.g., Rule 1905) and other references in the Clearing Rules to U.S. Sponsored Principals will not apply at this time. ICE Clear Europe confirmed in its rule filing that it will submit

ICE Clear Europe further proposes changes relating to the parameters for determining the relevant guaranty funds for the F&O, CDS and FX businesses to meet the requirements under EMIR.⁸ ICE Clear Europe states that the proposed changes do not affect the Clearing House's obligation to comply with other financial resources requirements under applicable laws, including the Act and Commission rules. Accordingly, ICE Clear Europe states that the parameters for determining the guaranty funds will also take into account such other requirements under applicable laws. Additionally, pursuant to EMIR,⁹ ICE Clear Europe proposes to revise rules to address the use of guaranty fund contributions to support borrowings under liquidity facilities for the purpose of making payments on cleared contracts, subject to certain limitations for each product category.

Pursuant to EMIR,¹⁰ ICE Clear Europe also proposes changes relating to porting customer positions and margin, changes relating to direct payments to customers following a Clearing Member's default, and changes relating to default management in the event of a customer's breach or default. These changes include the requirement for the Clearing House to transfer customer positions and margin after a Clearing Member's default, subject to certain conditions (including transfer being subject to applicable insolvency laws); the requirement that any transfer of customer positions and margin be fair to clients and indirect clients of the defaulting Clearing Member; the provision that would authorize ICE Clear Europe, upon a Clearing Member's default, to make any net sum payment relating to a customer directly to that

another rule filing if it determines to offer the Sponsored Principal model to U.S. Clearing Members or U.S. Sponsored Principals.

⁸ EMIR Article 42(3).

⁹ Articles 44-45 of Commission Delegated Regulation (EU) 153/2013 of 19 December 2012.

¹⁰ EMIR Article 48(5) and (6).

customer, if known; and the provision that would permit ICE Clear Europe, at the request of a Clearing Member, to transfer positions in a customer account to the Clearing Member's proprietary account to facilitate the Clearing Member's management of a breach of that customer, or default of that customer, under a Customer-Clearing Member Agreement.

In addition, ICE Clear Europe proposes changes relating to membership criteria, including requirements as to operational and financial capacity, compliance with sanctions regimes, and having a well-founded legal framework to support clearing operations. The proposed rule change also imposes a requirement that additional conditions imposed on Clearing Membership be proportional to the risk brought by the applicant and additional requirements around rejection or denial of applications. ICE Clear Europe also proposes changes that contain additional obligations on Clearing Members that are driven by EMIR requirements.

ICE Clear Europe further proposes changes to implement EMIR requirements related to trade repository reporting.¹¹ These include a rule change that requires a Clearing Member be a user of a designated repository for purposes of swap data reporting; a rule change to require that each Clearing Member, Sponsored Principal, customer and the Clearing House, as applicable, shall ensure reporting of cleared contracts and any modification or termination thereof to a trade repository within one working day following the conclusion, modification or termination of the contracts; and a rule change to authorize ICE Clear Europe to submit reporting data to reflect any transfer on behalf of a defaulting Clearing Member and its customers as a result of porting customer positions and collateral.

Finally, ICE Clear Europe also proposes certain other changes to its Clearing Rules that implement the foregoing, update various definitions, conform to new defined terms and other

¹¹ EMIR Article 9.

provisions of the updated Clearing Rules, incorporate the Sponsored Principal model and other new account structures, and make various other conforming and clarifying revisions that constitute drafting improvements, as more fully described in its filing with the Commission.¹²

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act¹³ 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. Section 17A(b)(3)(F) of the Act¹⁴ requires, among other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions and in general, to protect investors and the public interest, and are not designed to permit unfair discrimination in the admission of participants or among participants in the use of the clearing agency.

The Commission finds that the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to ICE Clear Europe. With respect to the proposed rule change intended to implement the new individual and omnibus segregation accounts, ICEEU contends that these changes provide strengthened options for the segregation and safeguarding of customer funds to customers of Non-FCM/BD Clearing Members. The existing,

¹² See supra note 3.

¹³ 15 U.S.C. 78s(b)(2)(C).

¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

non-individually segregated models will also generally remain available for those customers that want them. In addition, the customer account structures and segregation requirements for FCM/BD Clearing Members are not being changed. Accordingly, ICEEU states that the proposed rule changes will enhance, and not reduce, the level of customer protection available under the current ICE Clear Europe rules. The Commission finds that the proposed rule changes implementing the new individual and omnibus segregation accounts reduce the risk of loss to the Clearing House and market participants associated with a default by a Clearing Member or its customer and therefore, contribute to the safeguarding of securities and funds associated with derivative transactions that are in the custody or control of the Clearing House or for which it is responsible, consistent with Section 17(A)(b)(3)(F) of the Act.¹⁵

With respect to the proposed rule change regarding guaranty fund, ICEEU contends that the proposed changes do not themselves change ICE Clear Europe's methodology with respect to its margin or guaranty fund requirements. ICE Clear Europe currently implements risk management methodology that takes into account the parameters required to comply with all applicable laws and intends to continue maintaining risk management methodology with respect to margin and the guaranty fund that will comply with all applicable laws. Therefore, the Commission finds that the proposed rule change will not adversely affect ICE Clear Europe's maintenance of financial resources that support its clearing operations and is consistent with the requirement of safeguarding securities and funds in the custody or control of the clearing agency,¹⁶ and the requirements of Rule 17Ad-22(b)(3)¹⁷ regarding the maintenance of sufficient financial resources.

¹⁵ 15 U.S.C. 78q-1(b)(3)(F).

¹⁶ 15 U.S.C. 78q-1(b)(3)(F).

¹⁷ 17 CFR 240.17Ad-22(b)(3).

With respect to customer portability, direct payment to customers, and the option for a Clearing Member to request that ICE Clear Europe transfer a customer's positions and margin to the Clearing Member's proprietary account, the Commission finds that the proposed rule change enhances ICE Clear Europe's ability to manage defaults and is consistent with the Act, and rules and regulations thereunder applicable to ICE Clear Europe, in particular the requirement of safeguarding securities and funds in the custody or control of the clearing agency and the requirement that a clearing agency establishes default procedures that ensure timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of a participant default.¹⁸

Further, the Commission finds the proposed changes relating to membership criteria and obligations improves the financial and operational requirements for Clearing Membership and clarifies the Clearing House's ability to impose additional conditions on Clearing Membership and to reject or deny Clearing Membership applications, which is consistent with the Act, in particular the requirements that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement, to foster cooperation and coordination with persons engaged in the clearance and settlement, and not designed to permit unfair discrimination in the admission of participants or among participants in the use of the clearing agency.¹⁹

With respect to the proposed rule change to implement the reporting requirements under EMIR, the Commission finds that the proposed rule change only requires ICE Clear Europe or its counterparties to ensure that contract data are reported and leaves flexibility for ICE Clear Europe and its counterparties to determine who would be the reporting party undertaking the

¹⁸ 15 U.S.C. 78q-1(b)(3)(F) and 17 CFR 240.17Ad-22(d)(11).

¹⁹ 15 U.S.C. 78q-1(b)(3)(F).

reporting obligations. The Commission finds that the proposed rule change is consistent with the Act, in particular the requirement that the rules of a clearing agency are designed to remove impediments to and perfect the mechanism of a national system for prompt and accurate clearance and settlement, and to protect investors and the public interest.²⁰

Finally, the Commission finds that the other proposed changes to ICE Clear Europe's Clearing Rules are consistent with Section 17A of the Act, and rules and regulations thereunder applicable to ICE Clear Europe. In particular, the Commission believes that these proposed changes are principally designed to further implement the other changes to the Clearing Rules described above that are consistent with the Act by updating various definitions, conforming to new defined terms and other provisions of the updated Clearing Rules, and making various other conforming and clarifying revisions that constitute drafting improvements, and therefore are designed to promote prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.²¹

Section 19(b)(2)(C)(iii) of the Act²² allows the Commission to approve a proposed rule change earlier than 30 days after the date of publication of the notice of the proposed rule change in the Federal Register where the Commission finds good cause for so doing and publishes the reason for the finding. In its filing, ICE Clear Europe requested that the Commission approve the proposed rule change on an accelerated basis for good cause shown. ICE Clear Europe has represented that the proposed changes to its Clearing Rules are necessary to comply with

²⁰ 15 U.S.C. 78q-1(b)(3)(F).

²¹ 15 U.S.C. 78q-1(b)(3)(F).

²² 15 U.S.C. 78s(b)(2)(C)(iii).

requirements under EMIR in connection with its authorization as a central counterparty under EMIR. ICE Clear Europe further notes that failure to have the amendments in effect, and to be in compliance with the EMIR requirements, may adversely affect the approval of its authorization application and therefore its ability to do business as a recognized central counterparty. Accordingly, the Commission finds that good cause exists to approve the proposed rule change on an accelerated basis pursuant to Section 19(b)(2)(C)(iii) of the Act.²³

²³ 15 U.S.C. 78s(b)(2)(C)(iii).

IV. 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 Act²⁴ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²⁵ that the proposed rule change (SR-ICEEU-2014-09) be, and hereby is, approved on an accelerated basis.²⁶

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.²⁷

Kevin M. O'Neill
Deputy Secretary

²⁴ 15 U.S.C. 78q-1.

²⁵ 15 U.S.C. 78s(b)(2).

²⁶ 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).

²⁷ 17 CFR 200.30-3(a)(12).