

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73731; File No. SR-ICEEU-2014-20)

December 3, 2014

Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing of Proposed Rule Change Relating to CDS Pricing Policy

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on November 24, 2014, ICE Clear Europe Limited (“ICE Clear Europe” or “Clearing House”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared primarily by ICE Clear Europe. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The principal purpose of the change is to revise ICE Clear Europe’s CDS End-of-Day Price Discovery Policy (the “CDS Pricing Policy”) to incorporate enhancements to the price discovery process.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, ICE Clear Europe included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. ICE Clear Europe has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of these statements.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

ICE Clear Europe proposes revising the CDS Pricing Policy to incorporate enhancements to its end-of-day price discovery process for CDS Contracts. The proposed revisions are described in detail as follows:

ICE Clear Europe currently uses a “cross and lock” algorithm as part of its price discovery process for CDS Contracts. Under this algorithm, bids and offers derived from Clearing Member submissions are matched by sorting them from highest to lowest and lowest to highest levels, respectively. This sorting process pairs the Clearing Member submitting the highest bid price with the Clearing Member submitting the lowest offer price, the Clearing Member submitting the second highest bid price with the Clearing Member submitting the second-lowest offer price, and so on. The algorithm then identifies crossed and/or locked pairs (or “markets”). Crossed markets are the Clearing Member pairs generated by the sorting process for which the bid price of one Clearing Member is above the offer price of the matched Clearing Member. Locked markets are the Clearing Member pairs where the bid and the offer are equal. The mid-point of the bid and offer of the first non-crossed, non-locked matched market is the final end-of-day level (with additional steps taken to remove off-market submissions from influencing the final level). This process captures the market dynamics of trading; however, final pricing levels are ultimately determined by a single bid and a single offer, which results in the ability for one submission to influence the outcome.

ICE Clear Europe proposes enhancements to this methodology to improve the consistency of prices and reduce the sensitivity of the final end-of-day level to a single Clearing Member’s submission. Under the new “cross and lock” methodology, the average of the mid-

points of all non-crossed, non-locked matched markets for which the difference between the matched market bid and matched market offer is less than or equal to one bid-offer width is used as the final level (with additional steps taken to remove off-market submissions from influencing the final level). Under this approach, the end-of-day prices determined are less sensitive to outlying submissions.

An additional clarification is made to the calculation of a Clearing Member's open interest for purposes of the end-of-day price submission process to take into account the aggregate of both house and client positions carried by the Clearing Member. A correction is made in the policy to the minimum number of Clearing Members that need to have open interest in a particular instrument; this change conforms to current practice by the Clearing House.

The amendments also clarify that notional limits applicable to firm trades that may be assigned to Clearing Members as a result of the end-of-day price submission process will be established at risk sub-factor and sector levels. The revised policy also clarifies the sequencing of firm trades in relation to the determination of breaches of those limits, including to take into account the applicable risk sub-factor and to address sequencing within a particular instrument that is part of a particular risk sub-factor, if necessary.

The amendments also revise certain requirements applicable to the unwinding of firm trades entered into by Clearing Members. Although the existing policy does not require that firm trades be maintained for any particular period of time, it currently requires Clearing Members that elect to unwind a firm trade to do so at the then-current market price. There are practical difficulties with objectively determining whether an unwind transaction was executed at the then-current market price and therefore this requirement can be difficult to enforce. ICE Clear Europe proposes revising the policy to replace the requirement that unwind be executed at the

then-current market price with the requirement that any unwind must be executed in a competitive manner. Further, ICE Clear Europe proposes adding the requirement that, upon request, Clearing Members be able to demonstrate to the Clearing House's reasonable satisfaction that such unwind transaction was executed in a competitive manner. ICE Clear Europe proposes adding a non-exclusive list of examples of how Clearing Members may be able to demonstrate competitive execution of unwind transactions. Specifically, such examples include: (i) execution on an available trading venue; (ii) multiple dealer quotes received and execution of the unwind transaction at the best quoted price; or (iii) placement of the unwind transaction with an interdealer broker with price terms and instructions commensurate with a competitive execution.

In addition, the amendments make certain clarifications with respect to permissible reversing transactions with respect to firm trades, and the manner in which that Clearing House designates that actively traded benchmark instruments are not eligible for reversing transactions.

Certain other changes are made in the CDS Pricing Policy in order to conform to changes that have recently been made to the CDS Risk Policy.³ Specifically, references to risk sub-factors, as that term is described in the CDS Risk Policy, have been added throughout the CDS Pricing Policy, as well as conforming changes to various references to risk factors. Various non-substantive drafting clarifications have also been made throughout the CDS Pricing Policy.

The proposed changes are solely to the CDS Pricing Policy. No changes are proposed to ICE Clear Europe's Clearing Rules or Procedures as a result of these enhancements.

³ See Exchange Act Release No. 34-73156 (Sept. 19, 2014), 79 FR 57629 (Sept. 25, 2014) (SR-ICEEU-2014-13).

2. Statutory Basis

ICE Clear Europe believes that the proposed changes are consistent with the requirements of Section 17A of the Act⁴ and regulations thereunder applicable to it.⁵ Section 17A(b)(3)(F) of the Act⁶ requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to the extent applicable, derivative agreements, contracts and transactions, the safeguarding of securities and funds in the custody or control of ICE Clear Europe and the protection of investors and the public interest. The proposed rule change is principally designed to enhance the Clearing House's end-of-day price discovery process for CDS Contracts, and in particular to result in more consistent day-over-day end-of-day price levels, as well as to make various other improvements to the policy as discussed above.

The amendments regarding the unwind of firm trades are intended to make this aspect of the CDS Pricing Policy more readily enforceable, while maintaining the same or similar level of incentive for Clearing Members to provide accurate price submissions. ICE Clear Europe considers the proposed revision to further its goal in the existing policy of assuring that Clearing Members unwind firm trades on a competitive basis. If Clearing Members were permitted to unwind firm trades non-competitively at the original firm trade price, thereby alleviating the firm trade's impact to their portfolio, the incentive to provide accurate price submissions would be diminished. Given the significance of accurate submission to the end-of-day pricing process, ICE Clear Europe believes the proposed revision both clarifies and enhances its CDS Pricing Policy.

⁴ 15 U.S.C. 78q-1.

⁵ 17 CFR 240.17Ad-22.

⁶ 15 U.S.C. 78q-1(b)(3)(F).

As such, the amendments will facilitate the prompt and accurate clearance and settlement of the CDS Contracts cleared by the Clearing House, and are therefore consistent with the requirements of 17A(b)(3)(F) of the Act and the rules thereunder.

B. Self-Regulatory Organization's Statement on Burden on Competition

ICE Clear Europe does not believe the proposed amendments would have any impact, or impose any burden, on competition not necessary or appropriate in furtherance of the purpose of the Act. The enhancements to the end-of-day price discovery process apply uniformly across all CDS Clearing Members. ICE Clear Europe does not anticipate that these enhancements will materially affect the cost of clearing or adversely affect the ability of Clearing Members or other market participants to continue to clear CDS Contracts. ICE Clear Europe also does not believe the enhancements will limit the availability of clearing in CDS products for Clearing Members or their customers or otherwise limit market participants' choices for selecting clearing services in CDS. Therefore, ICE Clear Europe does not believe the proposed rule change imposes any burden on competition that is not appropriate in furtherance of the purpose of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments relating to the amendments to the CDS Pricing Policy have not been solicited or received. ICE Clear Europe will notify the Commission of any written comments received by ICE Clear Europe.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer

period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove the proposed rule change; or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ICEEU-2014-20 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ICEEU-2014-20. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those

that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings will also be available for inspection and copying at the principal office of ICE Clear Europe and on ICE Clear Europe's website at <https://www.theice.com/clear-europe/regulation>.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ICEEU-2014-20 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁷

Kevin M. O'Neill
Deputy Secretary

⁷ 17 CFR 200.30-3(a)(12).