

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74133; File No. SR-ICEEU-2015-003)

January 26, 2015

Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Related to New Haircuts

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 23, 2015, ICE Clear Europe Limited (“ICE Clear Europe”) 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 and to approve the proposed rule change on an accelerated basis.

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

The principal purpose of the proposed rule change is to modify the cross-currency haircuts applied by ICE Clear Europe to Permitted Cover provided by Clearing Members in order to address recent volatility in Swiss franc (“CHF”) exchange rates. The Clearing House has determined to modify the CHF cross-currency haircuts as follows:

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

Proposed CHF Cross Currency Haircuts:		
Currency Pair	Current Haircut	Proposed Haircut
CHF-CAD	10.00%	16.00%
CHF-CZK	6.00%	17.25%
CHF-DKK	6.00%	17.25%
CHF-EUR	10.00%	17.25%
CHF-GBP	10.00%	16.25%
CHF-HUF	6.00%	17.25%
CHF-JPY	6.00%	16.25%
CHF-NOK	6.00%	14.75%
CHF-PLN	6.00%	18.50%
CHF-SEK	8.00%	16.00%
CHF-TRY	6.00%	17.50%
CHF-USD	10.00%	15.75%
CHF-ZAR	6.00%	19.75%

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 III below. ICE Clear Europe has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of these statements.

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

1. Purpose

Under its existing margin and haircut methodology, ICE Clear Europe imposes an additional haircut, referred to as a “cross-currency haircut,” with respect to assets provided by Clearing Members as Permitted Cover for margin obligations where the Permitted Cover is denominated in a different currency from that of the relevant margin requirement. The cross-currency haircut is designed to protect the Clearing House against exchange rate risk in the event

it needs to liquidate the Permitted Cover and convert the proceeds into the currency of the relevant underlying obligation following a Clearing Member default.<sup>3</sup>

As has been publicly reported, on January 15, 2015, the Swiss central bank discontinued a policy establishing a minimum exchange rate of 1.20 Swiss francs per Euro. Very large moves in Swiss franc exchange rates followed that decision, with the result that the Swiss franc appreciated approximately 16-17% on that day against other major currencies such as the US dollar, Euro and British pound. Because that level of appreciation exceeded the existing cross-currency haircut of 10% applied by the Clearing House for those currency pairs, the Clearing House, consistent with its internal policies, reviewed the cross-currency haircut levels for all relevant Swiss franc currency pairs. As a result of that review, the Clearing House determined to modify the CHF cross-currency haircuts as set forth in Item I above.

In reviewing the haircuts, the Clearing House applied, consistent with its policies and practices, a value at risk model under both parametric and historical simulation methods, taking into account both recent volatility and historical volatility, and looking at both one and two day liquidation period assumptions for the relevant Permitted Cover.

## 2. Statutory Basis

ICE Clear Europe believes that the change in CHF cross-currency haircuts is consistent with the requirements of Section 17A of the Act<sup>4</sup> and the regulations thereunder applicable to it, and in particular, is consistent with the prompt and accurate clearance of and settlement of securities transactions, the safeguarding of securities and funds in the custody or control of ICE

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<sup>3</sup> Current cross-currency haircuts are set out in the List of Permitted Cover and Limits on Collateral published on the Clearing House's website, [https://www.theice.com/publicdocs/clear\\_europe/list-of-permitted-covers.pdf](https://www.theice.com/publicdocs/clear_europe/list-of-permitted-covers.pdf).

<sup>4</sup> 15 U.S.C. 78q-1.

Clear Europe and the protection of investors and the public interest, within the meaning of Section 17A(b)(3)(F) of the Act.<sup>5</sup> ICE Clear Europe is proposing the change in response to a significant recent increase in the volatility of CHF exchange rates as observed in the market. The Clearing House has determined, based on the application of its internal policies and value at risk models, that the proposed increase in cross-currency haircuts is appropriate to protect the Clearing House against currency risk where Clearing Members provide Permitted Cover in one currency to cover margin obligations in a different currency. The change thus enhances the Clearing House's risk management, margin framework and financial resources to support its clearing operations in the event of Clearing Member default. As a result, ICE Clear Europe believes that the change will facilitate the prompt and accurate clearance and settlement of securities and derivatives transactions, and promote the public interest and the protection of investors, within the meaning of Section 17A(b)(3)(F) of the Act.<sup>6</sup>

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

ICE Clear Europe does not believe the proposed changes would have any impact, or impose any burden, on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed change will apply to all Clearing Members and market participants that provide Permitted Cover in circumstances where a CHF cross-currency haircut applies. ICE Clear Europe does not believe the change will have a material effect on access to clearing or the ability of Clearing Members and other market participants to obtain clearing services, or limit market participants' choices for clearing contracts. Although the increased haircuts may increase the cost of using certain types of Permitted Cover, ICE Clear Europe believes that such costs are

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<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

warranted by the increased CHF exchange rate risk presented to the Clearing House. As a result, ICE Clear Europe believes that any impact on competition is appropriate in furtherance of the purposes 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 proposed changes have not been solicited or received. ICE Clear Europe will notify the Commission of any written comments received by ICE Clear Europe.

III. 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](mailto:rule-comments@sec.gov). Please include File Number SR-ICEEU-2015-003 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-2015-003. 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 also will 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-2015-003 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

Section 19(b)(2)(C) of the Act<sup>7</sup> 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 Act<sup>8</sup> requires, among other things, that the rules of a registered 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, and, in general, to protect investors and the public interest.

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<sup>7</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

The Commission finds that the proposed revisions to the Swiss franc cross-currency haircuts are consistent with the requirements of Section 17A of the Act<sup>9</sup> and the rules and regulations thereunder applicable to ICE Clear Europe. ICE Clear Europe proposes to revise the cross-currency haircut levels for all relevant Swiss franc currency pairs in response to increased volatility in Swiss franc exchange rates, which has resulted in appreciation of the Swiss franc exceeding the existing cross-currency haircuts applied to its Swiss franc currency pairs. The revised haircuts, which were determined using risk-based models and parameters, are intended to protect ICE Clear Europe from exchange rate risk in the event it needs to liquidate relevant Permitted Cover and convert the proceeds into the currency of the relevant underlying obligation following the default of a Clearing Member. The Commission therefore believes that the proposed rule change is designed to promote the prompt and accurate clearance and settlement of securities and derivatives transactions, and, in general, to protect investors and the public interest, consistent with Section 17A(b)(3)(F) of the Act<sup>10</sup> and the rules and regulations thereunder.

ICE Clear Europe has requested that the Commission approve the proposed rule change on an accelerated basis for good cause shown. ICE Clear Europe states that the proposed rule change is intended to address a recent market development resulting in substantially increased volatility in Swiss franc exchange rates. ICE Clear Europe believes that in light of these developments, it is necessary to increase the Swiss franc cross-currency haircuts as set forth herein in order to appropriately manage the currency risks from Permitted Cover provided to the Clearing House. ICE Clear Europe further believes that a delay in

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<sup>9</sup> 15 U.S.C. 78q-1.

<sup>10</sup> 15 U.S.C. 78q-1(b)(3)(F).

implementation of the proposed changes could adversely affect its risk management and unnecessarily expose the Clearing House to increased currency risk if it were necessary to liquidate Permitted Cover in the event of a Clearing Member default. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2)(C)(iii) of the Act,<sup>11</sup> for approving the proposed rule change on an accelerated basis.

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<sup>11</sup> 15 U.S.C. 78s(b)(2)(C)(iii).



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<sup>12</sup> and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>13</sup> that the proposed rule change (SR-ICEEU-2015-003) be, and hereby is, approved on an accelerated basis.<sup>14</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

Jill M. Peterson  
Assistant Secretary

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<sup>12</sup> 15 U.S.C. 78q-1.

<sup>13</sup> 15 U.S.C. 78s(b)(2).

<sup>14</sup> 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).

<sup>15</sup> 17 CFR 200.30-3(a)(12).