

## NOTICE 13-106

November 5, 2013

### Summary of content

Changes to Clearing  
Member Guaranty  
Fund Requirements  
and Money Market  
Mutual Fund Policy

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ICE Clear US, Inc. (ICUS) is in the process of applying to the Commodity Futures Trading Commission (CFTC) to become a Subpart C derivatives clearing organization (DCO) which will allow it to retain its status as a qualified central counterparty (QCCP). The CFTC has proposed a new section, Subpart C, to Part 39 of the CFTC regulations. It is designed to make the core principles applicable to DCOs consistent with the international standards set forth in the Principles for Financial Market Infrastructures (“PFMIs”).

### **Guaranty Fund Size**

Under the proposed Subpart C regulations, the DCO shall maintain financial resources sufficient to meet its credit exposure to its clearing members notwithstanding the default of the two clearing members creating the largest aggregate credit exposure for the DCO in extreme but plausible market conditions (referred to as “Cover 2”; see CFTC proposed Reg. 39.33(a)(1)).

The ICUS guaranty fund is currently set at approximately \$300 million, which covers the default of one clearing member creating the largest credit exposure. **In order for the guaranty fund to meet Cover 2, ICUS will increase the size of the guaranty fund to \$450 million.**

Accordingly, ICUS will increase the amount funded by clearing members from \$300 to \$400 million. As part of the Subpart C changes, ICE Inc. has agreed to make a \$50 million contribution to the ICUS guaranty fund. Of this contribution, \$25 million will be paid to meet any remaining obligation of a defaulting firm before any payments are made from the guaranty funds of non-defaulting clearing members. The remaining \$25 million ICE Inc. contribution will be paid pro rata along with guaranty fund contributions of non-defaulting clearing members. Any remaining default balance will be covered through assessments to clearing members.

ICUS allocates the guaranty fund among clearing members based on their percentage of open interest and volume. To accommodate the increase in guaranty fund size, the cap on the open interest portion (which represents 80% of the contribution) will be increased from \$12,500,000 to \$18,000,000 and the cap on the volume portion (which represents 20% of the contribution) will be increased from \$4,500,000 to \$6,500,000. The minimum guaranty fund contribution will remain at \$2 million.

### **Money Market Mutual Funds**

The CFTC’s proposed Subpart C regulations also require DCOs to maintain “eligible liquidity resources that will enable it to meet intraday, same-day and multiday obligations to perform settlements with a high degree of confidence under a wide range of stress scenarios of a default by the clearing member creating

the largest aggregate liquidity obligation under extreme but plausible market conditions.” (See CFTC proposed Reg. 39.33(c)(1)) Under the proposed regulations, money market mutual funds are not considered a qualifying liquidity resource. (See CFTC Proposed Reg. 39.33(c)(3)). Therefore, ICUS will no longer accept money market mutual funds as deposits to meet original margin or guaranty fund requirements.

**Subject to regulatory review, these two changes will be effective on January 1, 2014.** ICUS will distribute letters to clearing members during the first week of December indicating their new guaranty fund requirements. As a reminder, ICUS previously announced in [CM Notice 13-093](#) that effective January 1, 2014, 50% of each clearing member’s Guaranty Fund requirement must be maintained in USD cash.

If you have any questions, please contact Bruce Domash, Risk Director, at 312.836.6709 or via e-mail at [bruce.domash@theice.com](mailto:bruce.domash@theice.com).