

List of Permitted Cover and Haircut Rates: Letters of Credit and Pass-Through Letters of Credit

Further to Circular C12/041 dated 20 April 2012, which confirmed the restriction on the use of Letters of Credit and Pass-Through Letters of Credit under CFTC Rule 39.13(g)(10) until 120 days from Monday 07 May 2012, the purpose of this Circular is to inform Clearing Members that following the S2F transition of the Energy contracts on the 15 October 2012 ICE Clear Europe (the "Clearing House") will accept Letters of Credit as permitted cover for Energy Clearing. Therefore, with immediate effect, the Clearing House will consider new requests to use Letters of Credit or Pass through Letters of Credit to meet Initial/Original Margin requirements.

Letters of Credit and Pass-Through Letters of Credit

As noted above, the Clearing House will allow non-financial institution¹ Energy Clearing Members to deposit Letters of Credit or Pass-Through Letters of Credit as permitted cover for Initial/Original Margin requirements for energy clearing products.

The Clearing House will accept three forms of the Letter of Credit:

- Letters of Credit - available for non-financial Energy Clearing Members. The Standard Terms set out in Section 12.4 of the Finance Procedures is unchanged;
- Pass-Through Letters of Credit for non-financial institutions which are clients of Energy Clearing Members without FCM Clearing Member status. The Standard Terms set out in Section 12.4 of the Finance Procedures is unchanged;
- Pass-Through Letters of Credit for non-financial institutions which are clients of Clearing Members with FCM Clearing Member status, from 28 November 2012. Please note that additional wording has been added to the Standard Terms set out in Section 12.4 of the Finance Procedures.

Please find the templates on the Treasury webpage of the Clearing House:
https://www.theice.com/clear_europe_acceptable_collateral.jhtml

Both forms of Pass-Through Letters of Credit are transferrable from the Clearing House to the Clearing Member making the Clearing Member the beneficiary of the proceeds at execution. It is the responsibility of the Clearing Member to assess the wording of the Letter of Credit and only consent with the issue in case the Letter on Credit is acceptable by the Clearing Member as permitted cover and fully compliant with its regulatory requirements.

Use of Letters of Credit

As set out in Section 12.1(a) of the Finance Procedures, Clearing Members may use a letter of credit drawn in compliance with the Finance Procedures to satisfy Original Margin and Initial Margin, subject to a maximum of 50% of Original Margin and Initial Margin requirements (unless agreed otherwise by the

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Category:

Risk Management

Attachments:

None

Summary of content:

List of Permitted Cover

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¹ A non-financial institution does not hold a banking license and is not supervised by a national or international banking regulatory agency.

Clearing House at its discretion). Clearing Members must contact the Clearing House's Treasury Department in advance in connection with the issuance of any Letter of Credit.

Term of maturity

The Clearing House will only accept Letters of Credit or Pass-Through Letter of Credit where the term to maturity has a maximum of 3 months. The Clearing House is entitled to amend the term to maturity if regulation, legislation or market situation make that necessary.

Procedure to issue

The procedure for issuing or amending the Letters of Credit and Pass-Through Letters of Credit has not been changed and therefore issuance is only allowed after acceptance of the Letter of Credit, the Issuing Bank, value and term to maturity by the Clearing House.

Regulatory Reform:

The Clearing House acknowledges that new legislation may come in place affecting the acceptability of Letters of Credit. These changes may increase the costs of issuance substantially or even may result in an exclusion of the Letter of Credit as permitted type of cover. As the relevant rules are not finalised and the time of implementation is not yet set, the Clearing House retains the right to amend the wording, terms and procedures of the Letter of Credit at its own discretion. The Clearing House will keep Clearing Members informed about these developments and the impact it has on the acceptable collateral.

List of Permitted Cover and Haircuts

The List of Permitted Cover, along with the corresponding haircuts is attached and can be found at: https://www.theice.com/publicdocs/clear_europe/list-of-permitted-covers.pdf

If you have any questions on the information contained in this Circular, please contact Camiel Janmaat, Head of Treasury & Banking Services, by phone on +44 (0)20 7065 7603 or email camiel.janmaat@theice.com or the ICE Clear Europe Risk Department by phone on + 44 (0) 20 7065 7630 or email iceclearerisk@theice.com

Please ensure that the appropriate members of staff within your organisation and customers are advised of the content of this Circular

Signed:



Paul Swann
President & Managing Director