



GLOBAL MARKETS IN CLEAR VIEW

**ICE Trust U.S.
Clearing House for Credit Default Swaps (CDS)**

www.theice.com

ICE TRUST

ICE Trust is a clearing house dedicated to reducing counterparty risk and improving operational efficiency for credit derivatives, in particular, credit default swaps

- ICE Trust received regulatory approval from the Federal Reserve on March 4, 2009
- As a New York trust company and a member of the Federal Reserve System, ICE Trust is subject to direct regulation and supervision by the Federal Reserve and the New York State Banking Department. Subject to compliance with certain conditions, ICE Trust operates under an exemption from the Securities and Exchange Commission (SEC) and the U.S. Treasury Department
- ICE Trust clearing members are Bank of America, Barclays Capital, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan Chase, Merrill Lynch, Morgan Stanley, Nomura, BNP Paribas, RBS and UBS
- ICE Trust has an agreement with Markit to license historical price data. Markit also collects and distributes the daily settlement price information calculated by ICE Trust
- Clearing of North American CDS indexes (CDX) began March 9, 2009. Clearing of single-name CDS transactions began in December 2009; active clearing of buy-side transactions began in December 2009,
- As of June 22, 2010, ICE Trust has cleared more than \$6 trillion notional across more than 106 unique CDS index and single-name contracts, including over \$1.3 billion in buy-side trades cleared since December 2009
- ICE Clear Europe began clearing European CDS indexes in July 2009 and single names in December 2009



ICE TRUST AND THE ROLE OF CLEARING

ICE Trust addresses the CDS market as it exists today

- The CDS market is an over-the-counter (OTC) market. Transactions are conducted on a bilateral basis between participants, rather than on a centralized exchange
- In a bilateral transaction, each market participant is directly exposed to the credit risk of the counterparty to that transaction defaulting or failing to perform the terms of a contract. Credit risk increases exponentially as the number of bilateral counterparties increases
- A centralized clearinghouse reduces counterparty exposures by functioning as the buyer to every seller, and the seller to every buyer. Clearing participants agree to mutualize the risk of loss through the creation of a guaranty fund that protects all members in the case of a default by one or more members
- A centralized clearinghouse nets down offsetting bilateral positions, reducing balance sheet consumption
- Eliminating multiple bilateral credit lines and reducing net exposures improves capital efficiency and market liquidity
- Positions are marked to market daily using a standard, reliable settlement price and appropriately collateralized to reflect current market risk.
- Clearing facilitates straight through processing and reduces operational risk. Clearing also promotes open-execution and automated trading platforms, and contributes to the standardization of OTC contracts
- The ICE Trust CDS risk management system facilitates a transparent, sound and capital efficient CDS market
- ICE Trust provides a separate CDS risk pool that segregates the risk of cleared CDS positions from other markets, mitigating the potential systemic risk to other financial instruments and market participants



ICE TRUST: OPEN MEMBERSHIP, OPEN PLATFORM

ICE Trust offers clearing services to its membership and third-parties

- ICE Trust is open to all market participants that meet the clearing house's participant criteria as set forth in Chapter 2 (Membership) of the Rules of ICE Trust
- ICE Trust reviews each participant's financial standing, operational capabilities (including technical competence), systems and controls, and the size, nature and sophistication of its business in order to meet comprehensive risk management standards with respect to the operation of the clearinghouse
- Third-parties that do not wish to become members or meet the membership criteria of ICE Trust may establish relationships with clearing members
 - ICE's buy-side clearing solution offers industry-leading segregation of margin and positions, default protection, and portability pre- and post-default

Open clearing platform allows delivery of trades directly from multiple venues

- Trade execution and matching venues include ICE Link, MarkitWire, TradeWeb and other venues
- ICE Trust offers open architecture connectivity and interoperability model
 - ICE Trust's affiliates have existing electronic connectivity to CDS systems of all dealers and over 400 buy-side participants
- Integration and co-existence with other elements of CDS processing infrastructure, including DTCC Trade Information Warehouse (TIW) , DTCC/CLS net settlement system and buy-side access to independent warehouse record



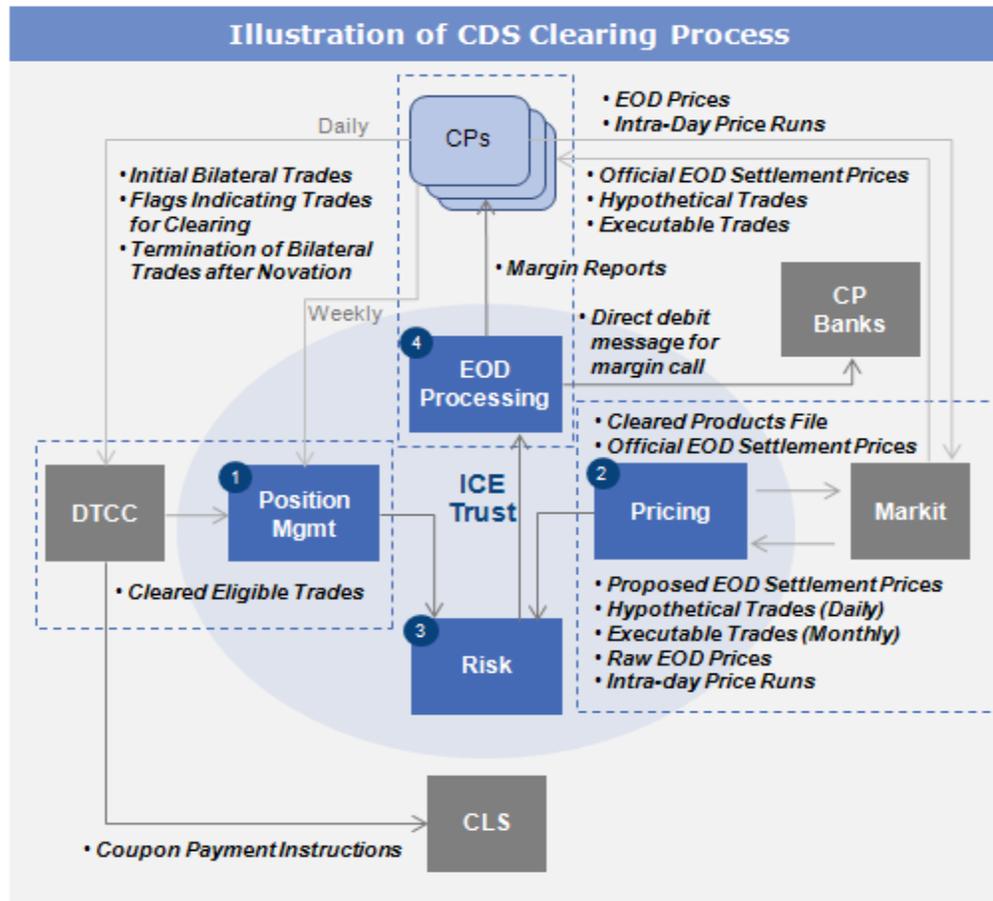
ICE TRUST GOVERNANCE

ICE Trust management is independent of its clearing members

- As an LLC, ICE Trust is independently governed by an 11 member Board of Managers
 - Four of the Managers are independent members of ICE’s Board of Directors, in accordance with the requirements of the New York Stock Exchange listing standards, the Exchange Act, and ICE’s Board of Director Governance Principles.
 - Three of the Managers are members of ICE management.
 - Four members of the ICE Trust Board of Managers are appointed by the Risk Committee. Of those four, two are dealers. (The other two are independent as described above.)
- All members of the ICE Trust Board of Managers are approved by the Superintendent of the New York State Banking Department



CDS CLEARING PROCESS OVERVIEW



Key Process Steps

- 1 Position Management**
 - Receive position file from DTCC
 - Identify eligible trades based on Clearing Participant flags
 - Create bilateral trades between ICE Trust and Clearing Participants (CPs)
- 2 Pricing**
 - Provide Markit with file detailing cleared products with open interest by CP
 - Receive proposed settlement prices, matched interest trades, and raw EOD price quotes from Markit
 - Receive CP's intraday price runs
 - Provide Markit with official EOD Settlement Prices
- 3 Risk**
 - Receive price and position information
 - Calculate daily Mark-to-Market margin
 - Calculate Initial Margin
 - Calculate Guaranty Fund and allocations
 - Provide inputs for end of day processing
- 4 End of Day Processing**
 - Send daily Mark-to-Market margin and Initial Margin reports to CPs
 - Provide bank instructions for daily margin calls and periodic Guaranty Fund adjustments



ICE TRUST RISK MANAGEMENT FRAMEWORK

Waterfall Approach for Managing Systemic Risk

Membership Criteria

- Ensure each clearing member has sufficient financial resources, operational capabilities and risk management experience

Initial Margin Requirement

- Collateralize potential clearing member portfolio loss under distressed market conditions

Mark-To-Market Margin Requirement

- Adjust clearing member collateral through a daily debit/credit based on EOD mark-to-market

Intra-day Risk Monitoring Special Margin Call Execution

- Identify additional margin requirements based on a comparison of unrealized P/L to Risk Margin, understanding unusual market fluctuations, etc.

Guaranty Fund (Includes participation from ICE)

- Mutualize losses under extreme but plausible market scenarios (ICE participation in the Guaranty Fund - up to \$50 million, between a priority and pro rata contribution)

Limited One-Time Assessment

- Oblige clearing members to contribute a limited amount of additional default funding



ICE TRUST LEGAL AND REGULATORY REQUIREMENTS

Statutory & Regulatory Considerations

- ICE Trust will continue to comply with all necessary legal and regulatory requirements to maintain a robust clearinghouse

NYBD

- ICE Trust is organized as a NY State chartered limited liability trust company
- ICE Trust is subject to direct supervision and examination by the New York State Banking Department

SEC

- ICE Trust has received an exemption from registration as a clearing agency and an exchange
- ICE Trust and the clearing participants have received an exemption from certain requirements under the Securities Exchange Act of 1934 and the Securities Act of 1933

FRBNY

- ICE Trust is a member of Federal Reserve system
- ICE Trust is subject to direct supervision and examination by the Federal Reserve System
- ICE Trust is subject to comprehensive ongoing regulatory oversight by Federal Reserve Bank of New York

FSA (UK)

- ICE Trust will work to meet FSA legal and regulatory requirements

Treasury Department

- ICE Trust and the clearing participants have received an exemption from certain provisions of the Securities Exchange Act of 1934 applicable to government securities brokers and dealers

Additional Compliance

- ICE Trust broadly observes all requirements for the BIS/IOSCO recommendations for central counterparties
- ICE Trust will provide information as required under terms of the November 2008 MOU signed by the Federal Reserve, the SEC and the CFTC



ICE CREDIT DEFAULT SWAP EXPERTISE

ICE has an established track record of leading the CDS market in critical industry initiatives

- **T+0 Trade Processing:** The ICE Link platform is the most widely adopted platform for same-day processing of CDS affirmations and novation consent with 16 CDS dealers, 7 Prime Brokers and over 400 live Buy-Side (over 150 in Europe)
- **Electronic Connectivity:** ICE Link connectivity provides interoperability between the CDS systems of dealers, prime brokers, buy-side, interdealer brokers, vendors and the DTCC Trade Information Warehouse
- **Credit Event Auctions:** ICE is the official co-administrator of auctions used to settle CDS contracts following default. Auctions have been used recently in connection with the defaults of General Motors, Visteon, R.H. Donnelley and Six Flags
- **Portfolio Compression:** ICE provides the industry standard platform for multi-lateral termination of single-name CDS contracts. The platform is a critical piece of infrastructure that can be leveraged to facilitate backloading of existing CDS portfolios into the clearinghouse
- **Electronic Trading:** ICE was the first to launch electronic trading for CDS in Europe and continues to lead the market with innovative electronic trading solutions that facilitate liquidity and risk management. Over 75% of ICE CDS volumes in Europe are traded electronically
- **Tradeable Credit Fixings:** ICE pioneered the development of industry standard Tradeable Credit Fixings which provide fair and reliable benchmarks and settlement rates for CDS products



