ICE CDS CLEARING: LEADING RISK MANAGEMENT SERVICES FOR CREDIT DERIVATIVES

INTRODUCTION
IntercontinentalExchange (ICE) is a leader in exchange-traded and over-the-counter (OTC) markets, providing comprehensive risk management solutions for energy, agricultural, equity index, foreign exchange and credit derivatives. ICE’s innovative OTC markets have played an important role in increasing transparency, liquidity and access to previously opaque and illiquid markets. ICE has leveraged its existing expertise in the OTC market with its credit expertise to become a leader in trade processing and risk management for the global credit default swaps (CDS) market. In March 2009, ICE launched the world’s first dedicated CDS clearing house, ICE Trust. In July 2009, ICE Clear Europe introduced clearing for European CDS, beginning with European CDS indexes. Since the inception of its CDS clearing business, ICE has cleared in excess of $3 trillion in notional value of CDS contracts.

COMPREHENSIVE CREDIT DERIVATIVE SERVICES
With its recent acquisitions of Creditex Group and The Clearing Corporation (TCC), ICE has assembled an industry-leading CDS infrastructure that fully encompasses trade execution, processing and clearing. ICE utilized technology, domain knowledge and personnel to establish CDS clearing, and ICE Trust and ICE Clear Europe complement several successful initiatives already underway within the industry to reduce systemic and operational risks in the credit derivatives market. ICE has played a key role in these initiatives, including involvement in portfolio compression and credit event auctions, which it administers with Markit. These credit event auctions have been relied upon by market participants for the orderly settlement of credit derivative trades referencing more than 70 defaulted entities, including Fannie Mae®, General Motors® and Lehman Brothers®.

ICE’s GLOBAL CLEARING SERVICES
ICE operates five regulated clearing houses across Europe, Canada and North America. These clearing houses help ensure the integrity of transactions in futures and OTC markets by eliminating counterparty and credit risk among market participants.

- Credit: TCC, which ICE acquired in March 2009, serves as the foundation for the risk management framework, operational processes and clearing infrastructure for the ICE Trust and ICE Clear Europe CDS clearing houses. TCC also provides clearing services for the Chicago Climate Exchange® (CCX) and Eurex® (through its Global Clearing Link), as well as other markets.

CREDIT DEFAULT SWAPS (CDS)
- CDS are the most common type of credit derivative and serve a vital function in capital markets by allowing a range of market participants to hedge credit risk. In the broader financial markets, CDS provide investors and lenders an additional level of protection against credit events.
- CDS typically reference a specific corporate, sovereign or asset-backed bond. The CDS seller provides the buyer with credit protection on that bond. Under a typical CDS contract, a buyer of credit protection agrees to make a payment or series of payments to the seller.
- If the bond issuer defaults, the seller must pay the buyer the principle and interest due on the bond.

For more information, visit us at www.theice.com
ICE CDS CLEARING

ICE provides clearing services to global CDS markets through two clearing houses in the U.S. and Europe:

**ICE Trust** is a dedicated CDS clearing house based in the U.S. In March 2009, the Federal Reserve Board of Governors approved ICE Trust’s application to become a member of the Federal Reserve System. ICE Trust’s comprehensive risk management system facilitates a more transparent and capital efficient market, while segregating cleared CDS positions and its risk pool from other markets. In its first seven months of operation, ICE Trust cleared more than $3.2 trillion in CDS contracts and reduced notional value outstanding on the contracts it offers by over 90%.

As neutral and independent clearing houses, membership in the ICE Trust and ICE Clear Europe CDS clearing is open to all qualifying buy-side and sell-side institutions that meet the stringent financial and eligibility standards set forth in the rules of the clearing houses. In addition to significant member contributions to guaranty funds at each clearing house, ICE will contribute $50 million to each guaranty fund over a two-year period. The aggregate size of each guaranty fund is determined by positions held in the clearing house, and will dynamically adjust in conjunction with market movements and increased volume of cleared CDS positions. Today, the ICE Trust guaranty fund holds approximately $2 billion.

ICE Trust currently has 13 clearing members. Clearing members at launch were Bank of America, Barclays, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, J.P. Morgan, Merrill Lynch, Morgan Stanley and UBS. HSBC and Royal Bank of Scotland joined ICE Trust in May 2009 and BNP Paribas joined in September 2009. In November, ICE Trust will introduce its indirect clearing solution, subject to regulatory approval.

**ICE Clear Europe** is ICE’s London-based wholly-owned derivatives clearing house. ICE Clear Europe initially served ICE’s energy futures and OTC markets and has extended its service offering to clear CDS products. Regulated by the U.K. Financial Services Authority (FSA), ICE Clear Europe clears approximately 50% of the world’s crude and refined oil futures contracts. The guaranty fund for energy futures is approximately $450 million and margin deposits are over $10 billion.

CENTRAL COUNTERPARTY CLEARING

Clearing houses are highly regulated organizations which serve as intermediaries and risk managers for exchange-traded and OTC transactions. As the buyer to every seller and the seller to every buyer, a clearing house enhances market stability by requiring systematic margin and guaranty fund deposits, which serve to mitigate the impact of a potential default. Risk is pooled among all clearing house members and capital efficiencies are created through daily margining and position netting. Without central clearing, counterparties would take on the bilateral credit risk of one another. Clearing is increasingly demanded by market participants seeking ways to increase capital efficiency and enhance risk management practices.

A clearing house’s primary role is to reduce the systemic risk associated with a particular market. A clearing house collects initial and variation margin deposits via daily mark-to-market pricing of contracts to ensure that the trading positions are properly valued and collateralized. In the event of a member’s default, a clearing house and its guaranty fund stand between the defaulting and non-defaulting members, and the rules of the clearing house provide for an orderly unwinding of the defaulting member’s positions.

For more information, visit us at www.theice.com
ICE Clear Europe has a separate risk pool for CDS, including guaranty fund and margin accounts, as well as a dedicated risk management system and governance structure. ICE Clear Europe CDS clearing is distinct from ICE Trust in the U.S., but leverages CDS technology and risk models already developed by ICE and utilized by market participants. European CDS clearing launched in July 2009 and ICE has cleared over $600 billion in European indexes since that time.

ICE Clear Europe CDS clearing launched with 10 members. Clearing members at launch were Bank of America, Barclays, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, J.P. Morgan, Morgan Stanley and UBS. Royal Bank of Scotland became the eleventh clearing member in August 2009. In November, ICE Clear Europe will introduce its indirect clearing solution, subject to regulatory approval.

RISK MANAGEMENT FOR GLOBAL DERIVATIVES MARKETS
ICE’s CDS risk management systems were developed internally based on a proprietary risk assessment methodology designed specifically for the CDS market, and have been reviewed and validated by an independent risk management consultancy as part of the regulatory review process. ICE’s methodology is used to determine initial and variation margin requirements, guaranty fund requirements and official daily settlement prices.

All of the member firms in ICE’s CDS clearing houses have completed rigorous technical testing and validation processes. Third parties that do not wish to become members, or that do not meet the membership criteria of ICE Trust or ICE Clear Europe, may establish relationships with clearing members beginning in October 2009. The ICE CDS segregated funds solution will offer default protection and account portability pre- and post-default.

GOVERNANCE AND REGULATION
ICE has a strong track record of independent governance, regulatory compliance and information sharing. ICE’s corporate governance structure is designed to avoid conflicts of interest between operation of, and participation in, markets. ICE’s regulated futures exchanges are self-regulatory organizations responsible for proper market operation.

ICE Trust is owned and operated by ICE and maintains an independent governance structure. The Board of ICE Trust has been appointed by ICE and approved by the New York State Banking Department (NYSBD), and consists of 11 members, a majority of whom are independent.

The Federal Reserve and the NYSBD have primary oversight responsibility for ICE Trust, which is also subject to oversight by the U.S. Securities and Exchange Commission (SEC) pursuant to an exemptive order related to clearing CDS. ICE Trust also operates pursuant to exemptive relief from the U.S. Department of the Treasury and has provided information to the U.K. FSA and the Commodity Futures Trading Commission (CFTC).

ICE Clear Europe was granted a recognition order by the U.K. FSA as a Recognised Clearing House and is also approved as the operator of a “designated system” under the Settlement Finality Directive (which provides post-counterparty insolvency payment finality protections). ICE Clear Europe has also received permission from the CFTC to offer clearing services for ICE’s OTC energy platform in the U.S. In July 2009, the FSA completed its regulatory review of ICE Clear Europe’s CDS clearing operations, risk management and governance, and the clearing house received exemptive relief from the SEC to clear CDS.

The Board of ICE Clear Europe consists of eight members, a majority of whom are independent. Two Non-Executive Directors with CDS expertise were added to the Board to complement the extension of clearing to CDS products. Separate CDS risk and buy-side advisory committees are being created in order to advise the Board on risk matters and allow the CDS buy-side to provide input on CDS issues related to the clearing house.
ICE CDS LEADERSHIP TEAM

Jeffrey C. Sprecher
Chairman and Chief Executive Officer

Scott A. Hill
Senior Vice President and Chief Financial Officer

Sunil G. Hirani
Senior Vice President and Corporate Development Officer

Paul Swann
President and Chief Operating Officer, ICE Clear Europe

Dirk J. Pruis
President, ICE Trust

Stan Ivanov
Chief Risk Officer, The Clearing Corporation

Mazy Dar
Vice President, Marketing & Strategy, Credit Derivatives

Suzanne Hubble
Director, CDS Development, ICE Clear Europe

Mark Woodward
Director, Corporate Development, ICE Clear Europe

Contact information:
ICE Trust: icetrust@theice.com
ICE Clear Europe: icecleareurope@theice.com

For more information visit: https://www.theice.com/ice_trust.jhtml or https://www.theice.com/clear_europe_cds.jhtml

ICE’S COMPREHENSIVE CDS OFFERINGS

EXECUTION

- Top-tier CDS voice and electronic brokerage
- Innovative client services such as delta neutral auctions, credit event auctions and single name compression

PROCESSING

- Post-trade platform connected to major CDS dealers and buy-side firms
- Helps clients meet new regulatory requirements for automation and standardization

CLEARING

- European CDS clearing launched in July 2009 at ICE Clear Europe
- ICE Trust launch March 2009, only U.S. CDS clearing house processing transactions

ABOUT ICE

IntercontinentalExchange (NYSE: ICE) operates leading regulated exchanges, trading platforms and clearing houses serving the global markets for agricultural, credit, currency, emissions, energy and equity index markets. ICE Futures Europe trades half of the world’s crude and refined oil futures. ICE Futures U.S. and ICE Futures Canada list agricultural, currency and Russell Index markets. ICE offers trade execution and processing for the credit derivatives markets through Creditex and clearing through ICE Trust and ICE Clear Europe. A component of the Russell 1000 and S&P 500 indexes, ICE serves customers in more than 50 countries and is headquartered in Atlanta, with offices in New York, London, Chicago, Winnipeg, Calgary, Houston and Singapore.

Visit us at www.theice.com

IntercontinentalExchange is a registered trademark of IntercontinentalExchange, Inc., registered in the United States and the European Union.

ICE, ICE Clear Europe and ICE Clear U.S. are registered trade marks and marques depose on IntercontinentalExchange, Inc., registered in the United States, the European Union, Canada and Singapore.

ICE Clear Canada is a registered trademark of IntercontinentalExchange, Inc., registered in the United States, the European Union and Singapore.

Creditex is a registered trademark of IntercontinentalExchange, Inc. and/or its affiliated companies, registered in the United States, Australia, the European Union, Hong Kong, Japan and Singapore.

ICE Trust and The Clearing Corporation are trademarks of IntercontinentalExchange, Inc. and/or its affiliated companies.