Dear Secretaries:

ICE Data Services appreciates the opportunity to comment on the analysis, data and conclusions of the Basel Committee’s proposal for revisions to the minimum capital requirements for market risk consultative paper released on 22 March 2018. We believe that our experience as an independent provider of fixed income evaluated pricing services, OTC derivatives calculation services, related transparency data, reference data and analytics, serving more than 5,000 global organizations, gives us unique information and insights that may assist the BIS in refining its analysis and recommendations related to the market risk standard. We have engaged with over 60 banking institutions globally to present data ICE Data Services has within its services which can assist with the RFET (Risk Factor Eligibility Test) and other components of the IMA (Internal Model Approach). Finally, ICE Data Services has had representation on multiple industry panels on FRTB and is an active participant with an industry-wide FRTB working group, further providing us insights that we believe are valuable for the BIS to consider.

This letter will address the following topics in connection with the Consultative Paper:

Alternatives to Determine Risk Factor Bucket Specification

- From the conversations we have had with reporting entities and the data we have provided to them for analysis there is sufficient data available to support the ability for entities to follow the first alternative allowing reporting entities to define their own ranges ("buckets") of risk factors that most closely aligns with the exposures of that particular institution. From the data we have reviewed we believe firms will be able to adjust their models to ensure that firms seeking to enter, or having small exposures to, a sector can achieve that with suitable risk capital charges.

Impact of Seasonality on the Risk Factor Eligibility Test

- When reviewing our historical data, we find that seasonality has a direct and observable impact on the risk-factor eligibility test which we believe is currently calibrated to make certain risk factors non-modellable which we do not believe was the intention of the BIS. Therefore, we would recommend a recalibration of the current one-month gap test.

Request for Clarity around the Term “Audit” When Used in Reference to Third Party Vendors

- In Annex B, the Consultative paper uses the term audit with regards to real price evidentiary support provided by third-party vendors. Although we understand that it makes sense to require banks to perform due diligence on third-party vendors and require these vendors to supply bank supervisors with additional information, we do
not support the use of the term “audit” with regards the validity of this information as it may suggest a requirement to utilize third party firms adding unnecessary costs and processes onto the reporting entities.

Background on ICE Data Services
ICE Data Services is the business line responsible for the suite of pricing (including evaluated pricing), market data, analytics, index services and related products and services offered by certain Intercontinental Exchange, Inc. (NYSE: ICE) and certain of its subsidiaries (including ICE Data Pricing & Reference Data LLC, and ICE Derivatives Inc.). Intercontinental Exchange, Inc. operates a leading network of global futures, equity and equity options exchanges, as well as global clearing and data services across financial and commodity markets. The New York Stock Exchange, one of the exchanges operated by ICE, is the world leader in capital raising, listings and equity trading.

ICE Data Derivatives, Inc. is an indirect wholly owned subsidiary of Intercontinental Exchange, Inc. and is part of the pricing and analytics business unit of ICE Data Services, Inc. ICE Data Derivatives offers a comprehensive, independent portfolio valuation service for derivative instruments powered by a dedicated quantitative analysis team that can price and automate complex structures, including rare, highly bespoke structures across commodities, interest rates, FX, equities and credit default swaps. ICE Data Derivatives optionally provides investigation tools to compliment the valuation calculation services to allow greater transparency into the valuation calculation process with the ability to view full data sets (such as curves, surfaces, dividends, etc.) both live and historically (at numerous intraday cut off times of choice), recalculate values using other assumptions such as different collateralization & discounting methods, using custom curve, run historical analysis, back testing, etc.

ICE Data Pricing & Reference Data, LLC is an independent pricing vendor, providing evaluated pricing across a wide spectrum of instruments for more than 40 years. Our global securities evaluations are designed to support financial institutions’ and investments funds’ pricing activities, research and portfolio management. ICE Data services offers evaluations for approximately 2.7 million fixed income instruments, including more than 250,000 global corporate and sovereign bonds, as well as Fair Value Information Services for international equities, options and futures, and valuations for complex structured products.

Alternatives to Determine Risk Factor Bucket Specification
The consultation paper discussed the potential for the final market risk standard to be prescriptive as to the level of granularity of the risk factor buckets to better align with the PLA test. Based on our extensive engagements with banks that will be subject to this standard, combined with a strong understanding of how they expect to configure our tools, we do not believe it would be appropriate to require banks to use the same level of granularity when defining their risk factors. Although there would be benefits in comparability between reporting entities, ICE Data Services has observed such a wide range of exposures to certain risk factors, that no single level of granularity can possibly be appropriate for all institutions. There will be certain banks that have a large exposure to a
particular factor and a greater than the proposed granularity would be required to pass the P&L Attribution (PLA) test and arguably the RFET granularity should be more refined as well to align with the PLA test. Conversely, another institution may only have a minor exposure or be a new entrant into a particular risk factor and in this scenario, it would be proper for said entity to take a less prescriptive level of granularity than put forth in the consultative paper.

In support of this view, we have designed our service to allow each subscribing entity to define their own level of granularity when setting up individual risk factors and aligning our market data to those factors. Different institutions have provided a wide range of desired granularity during their testing, and we support the BIS retaining this flexibility in their recommendations for the final rule.

**Impact of Seasonality on the Risk Factor Eligibility Test**

It is difficult to demonstrate the impact that seasonality affects may have on the risk factor eligibility test for several reasons. Mainly, it is fairly subjective to identify scenarios where a risk factor inarguably should be considered modellable under the test when it experienced a 30 day or more gap in activity. Additionally, with lack of clarity on what specifically constitutes a committed quote, one bank may pass the RFET while another fails simply due to the inclusion of different data sets.

All of that being said, we think there are numerous examples in our data set that would be justifiable to a reasonable person where certain risk factors fail the RFET yet would be considered at least moderately liquid to that person. In light of these data, ICE recommends that the BIS consider a more flexible approach to its recommendation for the RFET passing criteria in the final standard.

In order to support this, ICE has chosen a specific example in the commodity space which we think exemplifies this situation. Upon request, we could provide additional data to the BIS for its consideration.

ICE believes that commodities tell the clearest seasonality impact story, especially energy which is well understood in the industry to display varying trading volume trends throughout the calendar year. To conduct our analysis, we started with 15 years of analysis of daily changes in open interest and identified a clear seasonality story in the US Power Future Trading Benchmark Contract PJM Western Hub Real Time Peak Daily.

Over the 15 year period, from Figure 1 below, you can see a spike in the modellability of the risk factors associated with this contract. Please note that for this illustration we analyzed futures that were in the one-year to two-year expiry bucket, where that expiry occurred in the summer (i.e. either July or August expiry), usually traded together by market participants because the weather, supply and demand fundamentals are closely correlated. In June, 100% of risk factors would pass both the 24 eligible observation minimum and the one-month gap test (i.e. 1/30 test: no allowable 30-day period without at least one eligible observation). It is also important to note that for this illustration we focused only on trade activity and did not include any committed quote data that would potentially improve these statistics. Committed quote data was omitted from this analysis.

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2. For this illustration, ICE assumed sample default Cohorting of risk factors of July and August (the summer months) as they cover a similar risk exposure in the power market driven by the seasonal pattern of the demand.
due to the lack of clarity as to what quotes are eligible to use within the RFET and certain prospects and clients of ours taking a strict interpretation of excluding quotes altogether.

It is our opinion that the ~40% drop in risk factors that pass the RFET by August- specifically the 1/30 test is not representative of a change in liquidity of these contracts, nor risk factors that the BIS would intend for a reporting entity to consider non-modellable and thus take a regulatory capital surcharge, but more reflective that the test, as specified today, may have serious unintended consequences.

Therefore, we believe that the BIS should consider revising the guidance for the RFET by recognizing the inherent seasonality in trading behavior of certain instruments (and their risk factors) and redesigning the passing criteria to avoid creating unnecessary regulatory capital surcharges that we believe were not in the BIS’ original intentions. ICE Data Services would be happy to work with the BIS in testing any alternative approaches that could be recommended for a quantitative impact study.

2003-2018 Trading in US Power Futures
Benchmark Contract PJM
1 Year Out Summer RPE 1/30 Pass Rate

Figure 1: Percentage of 1-YR Risk Factors passing each calendar month during 15-year test period

Alternatively, as displayed in Figure 2, if a bank were to follow one of the suggested bucketing for all of the Energy and Commodities Forwards/Futures, with a 3+ year bucket, a seasonal pattern is observed as well, as the frequency of trading tends to be higher when yearly hurricanes forecast are uncovered late in the spring.

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3 Both analyses are based on the exclusion of exchange settlement pricing which would make all risk factors modellable. We would like the BCBS to verify if these price observations can be included in real price analytics.
Figure 2: Percentage of 3+YR Risk Factors passing each calendar month during 15-year test period

**Audit Requirement for Third-Party Vendors**

In Annex B, the consultative paper specifies “In order for a risk factor to pass the risk factor eligibility test, a bank can also count real price observations based on information collected from third-party vendors provided (i) the vendor(s) communicate to the bank the number of corresponding “real” prices observed and the dates at which they have been observed; (ii) the vendor(s) provide, individually, a minimum necessary set of “identifier” information to enable banks to map real prices observed to risk factors; and (iii) each vendor be subject to an audit regarding the validity of its pricing information. The results and reports of this audit must be made available on request to the relevant supervisors and to banks as a precondition for the bank to be allowed to use “real” price observations collected by the third-party vendor. If the audit of a third-party vendor is not satisfactory to a supervisor, the supervisor may decide to prevent the bank from using data from this vendor.”

With regards to item (iii), we believe the term “audit” may have a more stringent interpretation than desired by the BIS. We believe an “audit” could lead to an industry-mandated “test” by an independent audit firm, which could significantly increase costs for the industry. We understand the need for the final standard to include a requirement for banks to conduct some type of due diligence to satisfy themselves of the validity of the pricing information, however, we believe this goal can be accomplished even without requiring an “audit” and therefore, suggest removing the term “audit” altogether.
ICE Data Services has significant experience working with clients to support their due diligence reviews of our controls and processes in support of other regulatory requirements such as the U.S. Investment Company Act of 1940 and accounting standards such as Accounting Standards Codification (ASC) Topic 820 and IFRS 13 to name a few. We believe that adopting a principles based approach requiring banks to satisfy themselves of the validity of the pricing information provided by the third-party vendor without dictating the specific method of achieving this goal is more appropriate.

**Conclusion**

ICE Data Services appreciates the opportunity to present our views on the proposed amendments to the minimum capital requirements for market risk framework. We are supportive of the BIS’ policy goal of promoting a more resilient banking system through more closely aligning regulatory capital with market risks. We stand ready to support our bank clients’ compliance workflow needs with the unique content and services we have. We welcome the opportunity to continue our dialogue with the reporting entities, industry trade groups and the BIS as we continue progressing as an industry.

Summarizing our responses to particular items raised in the Consultation Paper:

- We are supportive of allowing all reporting entities to define their own level of granularity of risk factor bucketing that most closely aligns with the exposures of that particular institution. Any attempts to standardise these definitions could potentially put a reporting entity at a disadvantage in a sector with minimal exposure or one that they are contemplating entering.

- Seasonality does have a direct and observable impact on the risk-factor eligibility test which we believe is currently calibrated to make certain risk factors non-modellable which would not be the intention of the BIS. We would recommend a recalibration of the current one-month gap test.

- Remove the term “audit” with regards to the expectations on third-party vendors that supply real price evidentiary support to reporting entities and replace it with a more principles based approach.

Kind Regards,

Anthony Belcher
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ICE Data Services