Consultation on introduction of ICE Swap Rate based on SONIA

January 16, 2020
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Executive summary

ICE Swap Rate (ISR) is recognised as the principal global benchmark for swap rates and spreads for EUR, GBP and USD interest rate swaps. It represents the mid-price for interest rate swaps (the fixed leg), at particular times of the day in tenors ranging from 1 year to 30 years. The floating leg is EURIBOR® for EUR and ICE LIBOR (LIBOR) for USD and GBP.

In August 2019, ICE Benchmark Administration Limited (IBA) published a Feedback Request paper posing two key questions. The first question was whether IBA should expand the data set to help increase the publication numbers. IBA published a further consultation on this in December 2019.

The second key question was whether IBA should publish ISR GBP SONIA rates based upon growing volumes in SONIA Swaps. All of the SONIA-related responses were in favour of IBA constructing and publishing GBP rates based on SONIA alongside the existing LIBOR-based benchmark. IBA now seeks comments on specific aspects of this implementation.

A questionnaire is attached for completion. More general feedback by email or letter is also welcome.

Respondents are requested to provide feedback to IBA at IBA@theice.com by 5pm London time on Friday May 22, 2020.

After the feedback period has closed, IBA will publish a feedback statement summarising responses. IBA will also publish the comments received unless confidentiality has been requested by the originator of the comments.
About ICE Swap Rate

Introduction and Background
ICE Swap Rate (ISR) is recognised as the principal global benchmark for swap rates and spreads for interest rate swaps. It represents the mid-price for interest rate swaps and spreads (the fixed leg), at particular times of the day in three major currencies (EUR, GBP and USD) and in tenors ranging from 1 year to 30 years. The floating leg is 3M ICE LIBOR (LIBOR) for USD, 3M and 6M LIBOR for GBP, and 3M and 6M EURIBOR® for EUR.

ISR is used as the exercise value for cash-settled swaptions, for close-out payments on early terminations of interest rate swaps, for some floating rate bonds and for valuing portfolios of interest rate swaps.

It was the first global benchmark to transition from a submission-based rate, when ICE Benchmark Administration (IBA) changed the methodology in 2015 from panel banks’ inputs to a new patented methodology based on tradable quotes sourced from regulated electronic trading venues. Such venues are Multilateral Trading Facilities (MTFs) and Swap Execution Facilities (SEFs).

ISR Methodology
The methodology is based on finding the volume-weighted average mid-price (VWAMP) from theoretically filling a trade in Standard Market Size (SMS) on both the bid and offer side at the relevant time.

The steps to produce ISR are that:

1. IBA receives data from multiple complete central limit order books (CLOBs), comprising tradable bids and offers, from regulated trading platforms during a pre-defined calculation window. The regulated trading platforms are BGC Partners’ BGC Trader, Tradition’s Trad-X and ICAP’s i-Swap.

2. IBA takes a set number of ‘snapshots’ from this data at randomised intervals to make the benchmark robust against momentary aberrations in the market.

3. The data is combined for each snapshot into a synthetic order book that represents the best prices and accompanying volumes available in the market at that time.

4. IBA calculates the volume weighted prices at which a trade in SMS could be filled from this synthetic order book on both the bid and offer side. These prices are used to calculate the VWAMP.

5. IBA performs a number of checks on the input data to exclude illiquid and outlier snapshots together with snapshots with crossed and zero bid-offer spread order books:

   **Illiquid snapshots**
   Illiquid snapshots are not included in the calculation. To ensure this, any snapshots that do not fill the SMS on both the bid and offer side are discarded, so that only VWAMPs from reasonably-sized trades are included in the calculation.

   **Crossed order books**
   Crossed order books, in which the bid price is higher than the offer price, could exist momentarily but would not be truly representative of the market during the data collection window. Snapshots with crossed order books are therefore discarded.

   **Zero spread order books**
   Similarly, an order book may have a best bid and best offer which are equal to each other. The calculation excludes these snapshots.
**Minimum number of snapshots**

IBA also sets a minimum number of liquid snapshots which must be available in order to perform the calculation.

6. Outlier checks are made to protect against momentary and unrepresentative spikes in price. The snapshots that passed the previous checks are ranked in order of their VWAMPs. The snapshots higher than the 75th percentile and lower than the 25th percentile are discarded, leaving only the most representative snapshots.

7. IBA combines the remaining VWAMPs into a final price using a quality weighting. Snapshots with tighter spreads between the Volume Weighted Bid and Offer are indicative of a better quality market so are given a higher weighting.

When there are not enough liquid snapshots to calculate the rate for a tenor, the day-on-day move in adjacent tenors and the previous day's rate for the tenor are used to interpolate a rate, provided that the following conditions are met:

- The adjacent tenors are spaced one year either side of the missing (‘target’) tenor;
- Neither adjacent tenor is itself interpolated; and
- The previous day's publications of the target tenor and the adjacent tenors were not interpolated.

If the above conditions for applying movement interpolation are not met, IBA publishes a ‘No Publication’ for that tenor. All tenors with sufficient volume are published in the normal way.

**Regulation of IBA and ISR**

IBA is authorised and regulated by the Financial Conduct Authority (FCA) for the regulated activity of administering a benchmark, and is authorised as a benchmark administrator under the EU Benchmarks Regulation (BMR).

The general requirements in Title II of the BMR apply to ISR. These include requirements in respect of a benchmark's input data and methodology; governance and management of conflict of interest requirements; benchmark oversight; maintenance of Control and Accountability Frameworks; record-keeping; and reporting of infringements.

The regulatory technical standards for the procedures and characteristics of the oversight function of certain benchmarks also apply to ISR.

The ICE Swap Rate Oversight Committee is comprised of an independent Chairperson and market representatives. The Oversight Committee is responsible for monitoring the administration of the benchmark. The composition and terms of reference of the Committee are published here.

**Further Information**

Further information about ISR, including how to access the benchmark rates, can be found here.
ISR GBP SONIA rates

Introduction
The movement away from GBP LIBOR to SONIA is expected to lead over time to diminishing volume in the existing ISR GBP benchmark as the transition progresses and demand for SONIA-based swaps increases.

IBA is looking to introduce a new suite of ISR tenors which will have SONIA as the floating leg. This will be done alongside the existing GBP LIBOR-based benchmark for as long as necessary and/or possible. IBA intends to use the same methodology, processes and governance as for the existing benchmark.

Further to IBA’s Feedback Request paper in August 2019, IBA is now seeking formal feedback on aspects of the introduction of ISR GBP SONIA rates.

Tenors
The tenors in which ISR GBP Rates 1100 is currently published are as follows: 1 year (1Y); 2Y; 3Y; 4Y; 5Y; 6Y; 7Y; 8Y; 9Y; 10Y; 12Y; 15Y; 20Y; 25Y and 30Y.

Q1 Do you agree that IBA should publish ISR GBP SONIA in the same tenors as ISR GBP Rates 1100? Yes/No

Q2 If your answer is No to Q1, please circle the tenors that IBA should in your view publish for ISR GBP SONIA: 1Y; 2Y; 3Y; 4Y; 5Y; 6Y; 7Y; 8Y; 9Y; 10Y; 12Y; 15Y; 20Y; 25Y; 30Y.

Q3 Please add any comment you may have about your response to Q2.

Q4 Do you consider that IBA should publish other tenors as well? Yes/No

Q5 If your answer is Yes to Q4, please circle and/or add the additional tenors that IBA should in your view publish for ISR GBP SONIA: 18M; 40Y; 50Y; others (please specify).

Q6 Please add any comment you may have about your response to Q5.

Day counts and interest rate basis
The day counts and interest rate basis for the underlying interest rate swaps for ISR are published [here](#).

The day counts and interest rate basis for the underlying interest rate swaps for ISR GBP Rates 1100 are as follows:

<table>
<thead>
<tr>
<th>1Y tenor</th>
<th>Tenors over 1Y</th>
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<tbody>
<tr>
<td>Day-count</td>
<td>Interest rate basis</td>
</tr>
<tr>
<td>Actual/365</td>
<td>3M LIBOR</td>
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For ISR GBP SONIA, IBA proposes the following:

<table>
<thead>
<tr>
<th>1Y tenor</th>
<th>Tenors over 1Y</th>
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<tbody>
<tr>
<td>Day-count</td>
<td>Interest rate basis</td>
</tr>
<tr>
<td>Actual/365</td>
<td>O/N SONIA compounded for 12M (Annual/Annual)</td>
</tr>
</tbody>
</table>
Q7 Do you agree that the day counts and interest rate basis for the underlying interest rate swaps for ISR GBP SONIA should be as above? Yes/No

Q8 Please explain the rationale for your answer to Q7.

Q9 If your answer is No to Q7, what would you propose?

**Methodology**

IBA is developing a ‘waterfall’ approach for ISR GBP LIBOR under which, in times of low liquidity on CLOBs, additional data sources would be incorporated on a tenor by tenor basis.

Accordingly, the ISR LIBOR methodology and calculation will be used whenever the underlying market liquidity is sufficient. When CLOB data is insufficient, IBA is proposing to use Dealer to Client data from dealer platforms and other RFQ data as a supplement. IBA is currently consulting on the best way to do this.

Q10 Do you agree that the same waterfall approach should be used for ISR GBP SONIA as for ISR GBP LIBOR in times of low liquidity underlying ISR GBP SONIA? Yes/No

Q11 If your answer is No to Q10, please explain the rationale for your answer.

**Implementation**

Market participants, and in particular SONIA Swap Traders and CLOB Platforms, have commented to IBA that time may be needed in order to implement and build infrastructure if SONIA is supplied through CLOBs.

Q12 Please suggest when IBA should introduce ISR GBP SONIA: Earliest introduction (e.g. Q2 2020); Latest introduction.

Q13 Please explain the rationale for your answer to Q12.

**Publication time**

The vast majority of those responding to IBA’s Feedback Request in August 2019 were supportive of publishing a rate at 11:15 London time based on a collection window from 10:58 to 11:00, which is the same as for the existing ISR GBP. Two respondents suggested publication to coincide with GBP ISR/OIS publication times.

Q14 Do you agree that ISR GBP SONIA should be based on a collection window from 10:58 to 11:00 London time? Yes/No

Q15 If your answer is No to Q14, what publication time or times would you prefer?

Q16 If your answer is No to Q14, please explain the rationale for your answer to Q15.

**Publication days**

IBA proposes that the GBP SONIA-based benchmark should be published on all London business days and not on bank holidays in England and Wales (see https://www.gov.uk/bank-holidays)

Q17 Do you agree that ISR GBP SONIA should be published on all London business days? Yes/No

Q18 If your answer is No to Q17, what publication days would you prefer?

Q19 If your answer is No to Q17, please explain the rationale for your answer to Q18.

**General Feedback**

IBA also welcomes more general feedback on ISR:

Q20 Do you have any additional comments about ISR? Yes/No
Q21 If your answer is Yes to Q20, please add your additional comments.

**Publication of Completed Questionnaires**
IBA will publish completed questionnaire unless confidentiality is requested in response to Q22 (by circling No or deleting Yes).
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The approach set out in this document is subject to change in response to feedback from market participants and other stakeholders and IBA's further development work.

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ICE Swap Rate consultation questionnaire - SONIA rates

IBA seeks stakeholder feedback on the proposed expansion of data used in the ISR calculation. Respondents are requested to provide feedback to IBA at IBA@theice.com by 5pm London time on Friday May 22, 2020.

Please attach additional pages if required for your responses.

This questionnaire requests specific feedback from market participants but more general feedback by email or letter is also welcome.

Contact Information

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<td>Email</td>
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For Qs with optionality, please circle your answer or delete the answer that does not apply.

<p>| Q1 | Do you agree that IBA should publish ISR GBP SONIA in the same tenors as ISR GBP Rates 1100? | Yes/No |
| Q2 | If your answer is No to Q1, please circle the tenors that IBA should in your view publish for ISR GBP SONIA. | 1Y; 2Y; 3Y; 4Y; 5Y; 6Y; 7Y; 8Y; 9Y; 10Y; 12Y; 15Y; 20Y; 25Y; 30Y |
| Q3 | Please add any comment you may have about your response to Q2. |               |
| Q4 | Do you consider that IBA should publish other tenors as well? | Yes/No |
| Q5 | If your answer is Yes to Q4, please circle and/or add the additional tenors that IBA should in your view publish for ISR GBP SONIA. | 18M; 40Y; 50Y Others (please specify): |
| Q6 | Please add any comment you may have about your response to Q5. |               |
| Q7 | Do you agree that the day counts and interest rate basis for the underlying interest rate swaps for ISR GBP SONIA should be as above? | Yes/No |
| Q8 | Please explain the rationale for your answer to Q7. |  |
| Q9 | If your answer is No to Q7, what would you propose? |  |
| Q10 | Do you agree that the same waterfall approach should be used for ISR GBP SONIA as for ISR GBP LIBOR in times of low liquidity underlying ISR GBP SONIA? | Yes/No |
| Q11 | If your answer is No to Q10, please explain the rationale for your answer. |  |
| Q12 | Please suggest when IBA should introduce ISR GBP SONIA: | Earliest introduction (e.g. Q2 2020): Latest introduction: |
| Q13 | Please explain the rationale for your answer to Q12. |  |
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<td>Q21</td>
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</table>

**Publication of this completed questionnaire**
IBA will publish your completed questionnaire *unless you circle No or delete Yes* in the box below to request confidentiality.

| Q22 | Do you agree to this completed questionnaire being published by IBA? | Yes / No |

Please email your completed questionnaire to `IBA@theice.com` by 5pm London time on **Friday May 22, 2020**.

Or post it, to arrive by 5pm London time on Friday May 22, 2020, to:

ICE Benchmark Administration Limited  
Milton Gate  
60 Chiswell Street  
London EC1Y 4SA