



ICE Swap Rate Feedback Statement on Possible Enhancements

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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.

IBA posed two key questions in a [Feedback Request paper](#) published on August 9, 2019:

- 1) Should IBA expand the data set to help increase the publication numbers, particularly in light of recent USD No Publications; and
- 2) Should IBA publish GBP SONIA rates based upon growing volumes in SONIA Swaps.

A questionnaire requested specific feedback from market participants and more general feedback by email or letter was also welcomed. Respondents were asked to provide feedback to IBA by 5pm London time on October 14, 2019.

IBA is grateful for the 20 responses to the paper. These included 19 individual responses and a consolidated response from ISDA on behalf of 11 of its members. The individual responses were from 15 banks/broker dealers, one Investment Advisor, one Hedge Fund, one Pension Plan Manager, and one Exchange. It should be noted that some of the individual responses were also included in the consolidated response from ISDA.

IBA stated that completed questionnaires would be published unless the respondent requested confidentiality. All respondents requested confidentiality.

The great majority of respondents were in favour of expanding the data set underlying ISR, and supported IBA constructing and publishing GBP rates based on SONIA alongside the existing LIBOR-based benchmark.

IBA has discussed these issues with the ICE Swap Rate Oversight Committee, and IBA will explore over the coming months ways to:

- Include non-CLOB data in the ISR calculation; and
- Produce ISR rates with SONIA, including the possibility of introducing shorter tenors (such as 1, 3, 6 and 18 Months) and longer tenors (such as 40 Years).

IBA will also work with ISDA on potential fall-backs.

IBA intends to publish a Consultation paper in Q1 2020 to seek feedback on specific aspects of the enhancements to ISR.



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 currently 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.

To produce ISR, 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. From this data, IBA takes a set number of "snapshots" at randomised intervals within the data collection window, combining each snapshot into a synthetic order book that represents the best prices and accompanying volumes available in the market at that time. These prices are used to calculate the VWAMP.

IBA performs a number of checks on the input data and the remaining VWAMPs are then combined into a final price using a quality weighting.

When there are not enough liquid snapshots to calculate the rate for a tenor movement interpolation can be applied to interpolate the rate, provided that certain conditions are met. If these conditions are not met, IBA publishes a 'No Publication' for that tenor.

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](#).



Approaches for Generating ISR in Times of Low Liquidity

Introduction and possible approaches

ISR is underpinned by a strong and reliable methodology that has been [cited](#) by the official sector as a good example of a robust, representative benchmark calculation. Over the period from April 1, 2015 to August 5, 2019, IBA published 98.57% of the total ISR rates.

On occasions, however, IBA is unable to publish some ISR tenors because of a lack of liquidity on the trading platforms from which IBA sources data. The low liquidity is typically caused by high market volatility.

The Feedback Request paper asked for comments on the possible expansion of data used to compile ISR, in circumstances of low liquidity, in particular:

- Including non-CLOB data:

IBA sought views on whether to include data from alternative sources when firm quotes are not available from MTFs or SEFs on inter-dealer CLOBs, such as:

- Pricing from Request for Quote platforms;
- Data from Dealer-to-Customer (D2C) swap pricing sources; and/or
- 'Screen' prices including voice broking data.

Under this approach, IBA would source bids and offers for the same data collection window as is currently used for ISR.

IBA also asked whether a 'waterfall' approach should be used as the calculation methodology so that the CLOB data would not be mixed with the non-CLOB data set to produce the rate. Under such an approach, the existing methodology and calculation would be used whenever the underlying market liquidity was sufficient. In times of low liquidity or high volatility, the additional data sources would be incorporated in order to reduce the number of No Publications. All 20 responses were supportive of using non-CLOB data.

Among the potential other sources of data mentioned by respondents were:

- Dealer platforms SEFs, MTFs, OTFs;
- Pricing from, for example, RFQs.

Also the majority of respondents were in favour of a waterfall approach.

- Use of data from related markets:

Other market data (such as US Treasuries, UK Gilts, European government bonds and/or futures contracts) is more consistently available, and could be used to supplement CLOB data. However, the Oversight Committee has in the past expressed reservations about using data from another asset class in order to derive the benchmark. Two respondents suggested yields on US government bonds as a potential source of data.



- Use of Swap Data Repositories data:

Data sourced from Swap Data Repositories (SDRs) is another potential source. However, one possible drawback is that sourcing such data in a timely manner is difficult because of delays in the reporting of swap trades. Some respondents mentioned this as a possible source, but noted the practical limitations.

Methodology Change or Fall-back Rate

Under the current ISDA definitions, ISR must be used for the settlement of related contracts if a rate is published. However, if a rate is not available from IBA, a rate provided by 'reference banks' is used as the contractual fall-back in the ISDA definitions for EUR and USD ISR and a rate determined by the calculation agent is used at the contractual fall-back for GBP ISR.

There are two possible approaches for IBA to include non-CLOB data in the calculation of ISR.

First, the data could be included as an integral part of the ISR methodology, in which case firms would be obliged to use such rate for the settlement of related contracts before using any relevant contractual fall-backs.

Alternatively, IBA could publish rates using non-CLOB data, separate from ISR; in this case these rates could apply as contractual fall-backs prior to the existing contractual fall-backs described above if the ISDA definitions were amended to incorporate these non-CLOB rates as fall-backs¹.

Nineteen responses were supportive of non-CLOB data being integral to the methodology, while one respondent thought that non-CLOB data should only be used in the event a rate is not available with the current methodology.

Two responses suggested IBA work with ISDA on potential fall-backs.

¹ If the ISDA definitions were amended to include these as contractual fall-backs, the updates would apply to new transactions but not transactions entered into before the effective date of the amendments.



Possible ICE Swap Rate for GBP with SONIA as the Floating Leg

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 sought market participants' views as to whether IBA should introduce a new suite of ISR tenors which would have SONIA as the floating leg. This would be done alongside the existing GBP LIBOR-based benchmark for as long as necessary and/or possible. IBA would intend to use the same methodology, processes and governance as for the existing benchmark.

Of the 20 responses to the Feedback Request paper, four responses did not address the questions relating to a possible ICE Swap Rate with SONIA as the floating leg.

The remaining 16 responses were supportive of IBA introducing a GBP ISR based on SONIA, and were in favour of running it in parallel with the existing ISR benchmark. One respondent thought that the fall-back for GBP LIBOR should be SONIA plus a fixed spread.

Most respondents advocated the same tenors as the current ISR benchmark. Some respondents suggested the potential for tenors out to 50 years if there was sufficient liquidity. It was also suggested that IBA consider introducing new shorter tenors such as 1, 3, 6 and 18 Months.

The vast majority of those responding were supportive of retaining the existing publication time. Two respondents suggested publication to coincide with GBP ISR/OIS publication times.

Several responses suggested that discounting for an ISR with a SONIA floating leg should also be carried out with reference to SONIA.

A number of respondents suggested that IBA should also publish ISR rates based on other RFRs.



Other issues and general Feedback

Responses to the Feedback Request paper also raised two other ways to reduce No Publications. One was to update the previous day's ISR rate(s) by reference to the daily movement in government yields. The other was to use the preceding day's ISR rate as a fall-back in the event of a No Publication. Neither approach gained general support.

One respondent also suggested an expansion of the interpolation methodology, for example not requiring adjacency of tenors for interpolation. However, in previous discussions with the ICE Swap Rate Oversight Committee, IBA concluded that relaxing some of the conditions could compromise the accuracy of the rate. Furthermore, since interpolation of a specific tenor requires data to be available for adjacent tenors, it would not be a potential solution on days when there is increased volatility or very thin liquidity across the curve. Another possible cause of non-publications is because related markets are closed (for example, on Christmas Eve and New Year's Eve).

The Feedback Request paper sought responses on one possible way to solve this problem, by linking the business day calendar used in the ISDA Floating Rate Option (FRO) definition to the publication schedule of the relevant ISR.

Responses were mixed in this regard. The majority of respondents thought it desirable to link the FRO definition to the publication schedule of the relevant ISR. Two respondents did not support linking and a number of respondents did not comment.

IBA also asked respondents to add any additional comments about ISR. Eight respondents provided general feedback, which included:

- Recommending the introduction of ISR rates based on other RFRs and that noting that discounting for those should be consistent with the underlying index;
- Urging IBA to address the issue of No Publication as quickly as possible;
- Suggesting the inclusion of data from specific venues;
- Emphasising the need for robust fall-backs; and
- Stating that market participants would need time in order to implement and build infrastructure if SONIA is supplied through CLOBs.



Next Steps

IBA is grateful for the stakeholder feedback and, in conjunction with the ICE Swap Rate Oversight Committee where appropriate, will take the following next steps:

- Expanding the data used in the ISR calculation:
 - Seek to source non-CLOB data for inclusion in the ISR calculation, potentially including, at this stage:
 - Dealer platforms operated by SEFs, MTFs, OTFs; and/or
 - Pricing from, for example, RFQs;
 - Work with ISDA on potential fall-backs.
- Introduction of ISR rates with SONIA as the floating leg of the interest rate swap:
 - Work to produce ISR rates based on SONIA, including the possibility of introducing new tenors in addition to the existing GBP ISR tenors; and
 - Work with ISDA on fall-backs.
- General feedback:

Consider the introduction of ISR rates based on other RFRs in due course.

IBA intends to publish a Consultation paper in the coming months to seek feedback on specific aspects of the enhancements to ISR.

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