



***ICE BENCHMARK ADMINISTRATION LIMITED***

**ICE SWAP RATE PRACTICE STANDARDS**

**Introduction**

ICE Benchmark Administration Limited (IBA) is the Benchmark Administrator of ICE Swap Rate (ISR), formerly known as ISDAFIX, which is recognised as the principal global benchmark for swap rates and spreads for interest rate swaps.

ISR represents the mid-price for interest rate swaps (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.

**Proposed changes to the ISR Practice Standards**

The ISR Practice Standards set out the respective responsibilities of the following: IBA; those who make benchmark submissions available to IBA; and the ICE Swap Rate Oversight Committee

The ICE Swap Rate Oversight Committee has recently carried out a periodic review of the Practice Standards and proposes the following changes:

- Section 2 (More about ICE Swap Rate): clarifying that ISR is calculated by working out the theoretical mid-price to fill a trade of Standard Market Size using the best prices available on relevant regulated electronic trading venues at the specified times and in the specified currencies and tenors
- Section 5 (IBA's responsibilities as the benchmark administrator): adding reference to the FCA's rules on FRAND (Fair Reasonable And Non Discriminatory) access to benchmarks; these rules were introduced with effect from 1 April 2016, and
- Section 7 (Responsibilities of the MTFs and SEFs): clarifying that only prices that are executable are included in the ISR calculation.

The proposed changes are highlighted attached with new wording underlined and deletions struck through.

## Regulatory requirements

ISR is one of eight Specified Benchmarks that are regulated by the FCA. As the Benchmark Administrator for ISR (and ICE LIBOR and the LBMA Gold Price), IBA is authorised and regulated by the Financial Conduct Authority (FCA).

The FCA's rules related to benchmarks are published in Chapter 8 of the market conduct (MAR) section of the FCA's Handbook.

Pursuant to MAR 8.3.10, a Benchmark Administrator must, before making any changes to its Practice Standards:

“(a) notify the FCA;

(b) after doing so, publish a draft of the proposed changes and a notice that representations about the proposed changes may be made to the *benchmark administrator* within a specified time; and

(c) have regard to any such representations.”

## Commenting on the proposed changes

IBA invites comments on the proposed changes to the Practice Standards, which should be addressed to [IBA@theice.com](mailto:IBA@theice.com) on or before Wednesday 17 August 2016.

Alternatively, comments may be posted to IBA at the following address, to arrive by 17 August:

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

After that date, IBA will publish the updated Practice Standards, together with a summary of comments received during this consultation and IBA's response to those comments. If a commenter requests confidentiality, their comments will be taken into account by IBA but will not be included within IBA's published summary.

## Further information

Further information about IBA, ISR and the ICE Swap Rate Oversight Committee can be found at:

<https://www.theice.com/iba/ice-swap-rate>

The published ISR Practice Standards can be found at:

[https://www.theice.com/publicdocs/ISR\\_Practice\\_Standards.pdf](https://www.theice.com/publicdocs/ISR_Practice_Standards.pdf)

Further information about the FCA's MAR 8.3 requirements for Benchmark Administrators can be found at: <https://www.handbook.fca.org.uk/handbook/MAR/8/?view=chapter>



**ICE BENCHMARK ADMINISTRATION LIMITED**

**ICE SWAP RATE PRACTICE STANDARDS**

**1. Introduction**

These ICE Swap Rate Practice Standards set out the respective responsibilities of:

- ICE Benchmark Administration Limited (IBA) as the benchmark administrator of ICE Swap Rate, which is the global interest rate swap benchmark for swap rates and spreads
- those who make benchmark submissions available to IBA, and
- the ICE Swap Rate Oversight Committee.

**2. More about ICE Swap Rate**

ICE Swap Rate (ISR), formerly known as ISDAFIX, 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 (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.

ICE Swap Rate 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, among others.

ICE Swap Rate is calculated by working out the **theoretical** mid-price to fill a trade of Standard Market Size (SMS) using the best prices available on relevant regulated electronic trading venues at the specified times and in the specified currencies and tenors. Details of the calculation are included in paragraph 6 below.

The relevant electronic trading venues are Multilateral Trading Facilities (MTFs) regulated by the FCA and Swap Execution Facilities regulated by the US Commodity Futures Trading Commission (CFTC).

### 3. About IBA

IBA was established in 2013 for the sole purpose of administering benchmarks and in particular for tendering in May 2013 to the Hogg Tender Advisory Committee for LIBOR.

As well as ICE Swap Rate, IBA currently administers the following two systemically important benchmarks:

- ICE LIBOR — the world's most widely used benchmark for short term interbank borrowing rates, and
- LBMA Gold Price — the principal global benchmark for daily gold prices.

IBA is also the operator of the IBA Gold Auction which provides a market-based platform for buyers and sellers to trade physical spot gold. The final auction price is published to the market as the LBMA Gold Price benchmark.

IBA is authorised and regulated by the Financial Conduct Authority (FCA) in London.

### 4. Practice Standards

MAR 8.3.10 in the FCA's Handbook provides that:

"The *benchmark administrator* through its oversight committee must:

- (1) develop practice standards in a published code which, for the relevant *specified benchmark*, set out the responsibilities for:
  - (a) *benchmark submitters* and (where applicable) *persons* who make *benchmark submissions* available;
  - (b) the *benchmark administrator*, and
  - (c) the oversight committee;
- (2) undertake regular periodic reviews of:
  - (a) the practice standards mentioned in MAR 8.3.10 R (1);
  - (b) the setting and definition of the *specified benchmark* it administers;
  - (c) where applicable the composition of panels of *benchmark submitters* or other persons who make *benchmark submissions* available; and
  - (d) the process of making relevant *benchmark submissions*; and

- (3) before making any changes as a result of such review:
- (a) notify the FCA;
  - (b) after doing so, publish a draft of the proposed changes and a notice that representations about the proposed changes may be made to the *benchmark administrator* within a specified time; and
  - (c) have regard to any such representations.”

This ICE Swap Rate Practice Standards document fulfils IBA’s obligation under MAR 8.3.10(1). Through the ICE Swap Rate Oversight Committee, IBA will conduct periodic reviews of the Practice Standards and, before making any changes as a result of a review, IBA will notify the FCA, publish the proposed changes for consultation and have regard to any such representations.

## 5. IBA’s responsibilities as the benchmark administrator

The FCA’s regulatory requirements for benchmarks are contained in the MAR 8 chapter of the Market Conduct section of the FCA Handbook.

In summary, Benchmark Administrators must be Authorised by the FCA and must:

- implement credible governance and oversight measures
- appoint an Oversight Committee which includes representatives of benchmark submitters, market infrastructure providers, users of the Specified Benchmark and at least two independent non-executive directors of the benchmark administrator
- establish practice standards
- identify and manage conflicts of interest that may arise
- monitor and survey benchmark submissions to identify breaches of practice standards and/or potentially manipulative behaviour
- report any suspicious behaviour to the FCA
- have Whistle-blowing procedures to enable third parties to notify any suspicions to the benchmark administrator
- maintain sufficient financial resources to cover operating costs for nine months. The assets must be segregated from those of any other group entity and must be capable of being liquidated if necessary with minimal adverse price effect
- have regard to maintaining the integrity of the market and the continuity of the benchmark
- ensure that relevant users are granted fair, reasonable and non-discriminatory access to the benchmark, and

- ensure confidentiality of sensitive information.

The full text of MAR 8 can be found at: <http://fshandbook.info/FS/html/FCA/MAR/8>.

## 6. ICE Swap Rate calculation

As stated above, ICE Swap Rate represents the mid-price for interest rate swaps (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.

Key features of the ICE Swap Rate calculation are:

- Volume Weighted Average Mid Prices (VWAMP) from Synthetic Order Books created from data made available to IBA through several MTFs at different Snapshots in Time:

The calculation is based on finding the VWAMP from theoretically filling a trade in SMS on both the bid and offer side at a particular instant in time (a snapshot).

At each snapshot, we combine prices and volumes from trading venues to create a synthetic order book that represents the best prices (and accompanying volumes) available in the market at that time.

We then calculate the volume weighted prices at which you could fill a trade in SMS from this synthetic order book on both the bid and offer side and these prices are used to calculate the VWAMP.

- Multiple Snapshots:

Instead of using just one snapshot at a pre-determined time to create the VWAMP, IBA uses multiple, randomised snapshots taken in a short window before the calculation.

This makes the benchmark more robust against attempted manipulation and momentary imbalances or instability in the market.

- Liquidity Checks:

Illiquid snapshots are not included in the calculation: any snapshots that cannot fill the SMS (on both the bid and offer side) are discarded, so only VWAMPs from reasonably sized trades are included in the calculation.

- Outlier Checks:

To protect against momentary and unrepresentative spikes in price, outlier snapshots are not included in the calculation.

The snapshots that pass the liquidity checks are ranked in order of their VWAMPs and the snapshots higher than the 75th percentile and lower than the 25th percentile are discarded leaving only the most representative snapshots.

- Quality Weighting:

IBA combines the remaining VWAMPs into a final price (ICE Swap Rate) using a quality weighting.

Snapshots with tighter spreads between the volume weighted bid and volume weighted offer are given a higher weighting because they have more volume executable closer to the mid-point, and therefore are indicative of a better quality market.

The Benchmark Runs are:

Benchmark Run	Base Time Zone	Data Collection	Publication	Publication (GMT equivalent)
EUR Rates 1100	Frankfurt	10:58-11:00	11:15	10:15
EUR Rates 1200	Frankfurt	11:58-12:00	12:15	11:15
GBP Rates 1100	London	10:58-11:00	11:15	11:15
USD Rates 1100	New York	10:58-11:00	11:15	16:15
USD Spreads 1100	New York	10:58-11:00	11:15	16:15
USD Rates 1500	New York	14:58-15:00	15:15	20:15

The tenors for each Benchmark Run are:

Tenor	EUR Rates 1100	EUR Rates 1200	GBP Rates 1100	USD Rates 1100	USD Spreads 1100	USD Rates 1500
1 Year	○	○	○	○		○
2 Years	○	○	○	○	○	
3 Years	○	○	○	○	○	
4 Years	○	○	○	○	○	
5 Years	○	○	○	○	○	
6 Years	○	○	○	○		

Tenor	EUR Rates 1100	EUR Rates 1200	GBP Rates 1100	USD Rates 1100	USD Spreads 1100	USD Rates 1500
7 Years	○	○	○	○	○	
8 Years	○	○	○	○		
9 Years	○	○	○	○		
10 Years	○	○	○	○	○	
12 Years	○	○	○			
15 Years	○	○	○	○		
20 Years	○	○	○	○		
25 Years	○	○	○			
30 Years	○	○	○	○		

The day count and interest rate basis of each Benchmark Run are set out in the table below:

	1Y Tenor		Tenors over 1Y	
Benchmark Run	Day-count	Interest rate basis (m=month)	Day-count	Interest rate basis (m=month)
EUR Rates 1100	30/360	3m EURIBOR	30/360	6m EURIBOR
EUR Rates 1200	30/360	3m EURIBOR	30/360	6m EURIBOR
GBP Rates 1100	Actual/365	3m LIBOR	Semi-annual actual / 365	6m LIBOR
USD Rates 1100	Semi-annual 30/360	3m LIBOR	Semi-annual 30/360	3m LIBOR
USD Spreads 1100	-		30/360 semi-annual bond	
USD Rates 1500	Semi-annual 30/360	3m LIBOR	Semi-annual 30/360	3m LIBOR

## 7. Responsibilities of the MTFs and SEFs

The MTFs and SEFs make data available to IBA which is the executable quotes and related volumes for the fixed leg price of fixed-for-floating interest-rate swaps or, in the case of spreads, the fixed leg spread over an equivalent maturity bond, as quoted on the relevant Trading Venue for the relevant Benchmark Runs, for cleared products offered on a multilateral basis. ~~Indicative or implied prices~~ **Only prices that are executable are included.**

The MTFs and SEFs are responsible for complying with their obligations as regulated trading venues. These obligations include having controls and processes in place to protect against, inter alia, market abuse.

The MTFs and SEFs are also responsible for making the data available to IBA at the relevant times and for ensuring that the data accurately represents the prices and volumes that were available on their trading venues at the relevant times.

The MTFs and SEFs from which IBA sources prices for ICE Swap Rate can be found at: <https://www.theice.com/iba/ice-swap-rate>.

## 8. Responsibilities of the ICE Swap Rate Oversight Committee

Under MAR 8.3.8, IBA is required to establish an oversight committee (which must be a committee of the Benchmark Administrator).

MAR 8.3.9 then states that the oversight committee is responsible for:

- considering matters of definition and scope of the Specified Benchmark, and
- exercising collective scrutiny of benchmark submissions if and when required.

MAR 8.3.9 generally requires an oversight committee for a Specified Benchmark to be responsible for notifying the FCA of Benchmark Submitters that fail on a recurring basis to follow the practice standards. However, as stated above, ISR is a benchmark that does not have Benchmark Submitters (It is worth noting in this context that all Specified Benchmarks have Benchmark *Submissions* even though they do not all have Benchmark *Submitters*).

The terms of reference of the ICE Swap Rate Oversight Committee are available at:

[https://www.theice.com/publicdocs/futures/ISDAFIX\\_Oversight\\_Committee\\_Terms\\_Reference.pdf](https://www.theice.com/publicdocs/futures/ISDAFIX_Oversight_Committee_Terms_Reference.pdf).

## 9. Queries

Please address any queries about the ICE Swap Rate Practice Standards, by:

- email to [IBA@theice.com](mailto:IBA@theice.com)

- telephone to +44 (0)20 7429 7100, or
- post to

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