



ICE BENCHMARK ADMINISTRATION
ICE SWAP RATE - FEEDBACK STATEMENT
ON MOVEMENT INTERPOLATION CONSULTATION

Introduction

ICE Benchmark Administration Limited (“IBA”) issued a consultation paper on 7 March 2017 and asked for responses by 24 March 2017. The consultation sought views on whether movement interpolation should be added to the methodology for the calculation of ICE Swap Rate (“ISR”).

IBA is grateful for the 9 completed questionnaires received in response to the consultation.

The consultation paper asked three questions as set out below and included a free-text box for any additional comments.

Movement Interpolation

In the period since March 2015 when the current methodology for ISR was introduced, there have been instances when the requisite liquidity was not available in the electronic venue platforms, leading to a “No Publication” of ISR for a particular tenor/s, mostly in tenors with limited or lower usage.

Three broad categories of No Publications have been identified. The most common category involves days when liquidity in a small number of tenors is missing. This was the focus of the consultation.

The solution that IBA identified as most appropriate, based on the experience of using historical data over the last year, is the **linear interpolation of the daily rate movement between neighbouring tenors** (movement interpolation). To calculate the missing tenor the proposed methodology would define the change in the ISR rate from the known previous day rate for that tenor as the average of the changes from the previous day to the current day in the neighbouring tenors, weighted by the distance in tenors.

IBA invited views on whether a calculation using movement interpolation should be added to the existing methodology when there is not enough volume from the trading venues for IBA to calculate a rate for a particular tenor on a particular day.

Addition of Movement Interpolation to the Methodology

Question 1 concerned the addition of movement interpolation to the existing methodology and, with two exceptions respondents were in favour of adding movement interpolation to the existing methodology.

Advantages and Concerns

Question 2 concerned the advantages, drawbacks or risks in the adoption of movement interpolation. A number of suggestions were made by respondents on the addition of movement interpolation in the current methodology, including that movement interpolation should be used only for short gaps between tenors (no more than one year), and only used when the neighbouring tenors are not themselves interpolated. On the first issue, respondents felt that the rate might no longer be consistent with overall market movements if movement interpolation were adopted for longer gaps between tenors when the yield curve was non-linear. In terms of the application of interpolation, respondents proposed a restriction on the number of consecutive days on which an interpolated rate should be published, since using interpolation for too long may result in rates becoming non-representative.

Advance Notice

Question 3 was about advance notice that market users might need for the addition of movement interpolation. The majority of those who replied would not need any form of notice but some requested reasonable notice.

Additional Comments

There were no additional comments other than on the way IBA intends to publish the movement interpolated rate (which is addressed below).

Conclusion

Having carefully considered the consultation feedback, IBA proposes to include movement interpolation within the ISR methodology on the following basis:

- to fill gaps in tenors that are not more than one year away from neighbouring tenors
- where both the neighbouring tenors are not themselves interpolated, and
- for not more than a limited number of consecutive instances that will be determined through further data testing and in conjunction with the ICE Swap Rate Oversight Committee.

Movement interpolation will become an integral part of the ICE Swap Rate methodology in Autumn this year. The implementation date will be announced nearer the time but IBA feels it is important to give advance notice of the proposed change.

ISR will continue to be sourced from the same electronic pages of independent providers for the live feeds used currently <https://www.theice.com/iba/licensing> (under Data Vendors and Redistributors). For historical data, IBA provides the rate (delayed by 24hrs) and monthly volumes at its "Historical Data and Reports" <https://www.theice.com/iba/historical-data> section of its website.

In addition IBA will publish a quarterly report with the number of times on which movement interpolation was used throughout the previous Quarter on its website.