



ICE BENCHMARK ADMINISTRATION

ICE SWAP RATE – CONSULTATION

Introduction

In almost two years of publication since ICE Benchmark Administration Limited (IBA) introduced the new methodology in March 2015, ICE Swap Rate has successfully operated through market volatility caused by speculation arising from Central Bank activity, market data surprises and extraordinary political events such as the EU Referendum in the UK and its aftermath. There have been occasional cases, however, when a rate could not be published for certain tenors because of lack of liquidity in the underlying Swaps market.

IBA has examined those cases and in this consultation puts forward a proposal to produce rates for these tenors.

About ICE Swap Rate

ICE Swap Rate is published in multiple currencies and tenors at four times in a business day (EUR Rates 1100 at 11:15 Frankfurt Time, EUR Rates 1200 at 12:15 Frankfurt Time and GBP Rates 1100 at 11:15 London Time, USD Rates 1100 and USD Spreads 1100 at 11:15 New York Time, and USD Rates 1500 at 15:15 New York Time) through major redistributors.

The calculation methodology contains a number of steps and safeguards with key features being the liquidity checks, the outlier checks and the quality weighting of the snapshot Volume Weighted Average Mid Prices (VWAMPs). The full methodology is available from IBA's website:

https://www.theice.com/publicdocs/ICE_Swap_Rate_Full_Calculation_Methodology.pdf

The Special Cases section of the methodology refers to all snapshots failing the liquidity check because of insufficient volume to fill the Standard Market Size within the duration of the collection window. If all of the snapshots fail the liquidity check, under the current methodology IBA will publish a "No Publication" for that tenor.

In the period that the new methodology has been used, IBA has observed a number of instances when the requisite liquidity was not available in the electronic venue platforms leading to a "No Publication" for a particular tenor/s although the majority of the cases are tenors with limited or lower usage.

Three broad categories of No Publications have been identified.

1. Tenors missing liquidity is the most common category and involves days when liquidity in a small number of tenors is missing. This is the main focus of this consultation.
2. Days when low liquidity for certain runs can be anticipated due to their proximity to holidays. IBA is working with market participants and market associations to produce a holiday calendar for ISR that is aligned with trading practices in the Interest Rate Swaps market.
3. Days when liquidity is unexpectedly withdrawn from the platforms across the whole curve due to exceptional market events or major news releases. Firms have existing contractual fallbacks to deal with these cases.

IBA has considered a number of approaches to the days when liquidity in a small number of tenors is missing. In doing so, IBA has been mindful of the importance of avoiding excessive complexity and avoiding the use of subjectivity.

The solution that IBA has identified as most appropriate, based on the experience of using historical data over a 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.

Specifically, IBA proposes to use the following formula to calculate the interpolated movement (R_n) in the missing tenor, based on the daily movement in neighbouring tenors (R_1 and R_2) and the distance between the missing tenor (t_n) and the neighbouring tenors (t_1 and t_2):

$$R_n = R_1 + \frac{R_2 - R_1}{t_2 - t_1} \times (t_n - t_1)$$

To provide an example, suppose that the USD 9Y tenor was missing on a specific day but the 8Y and 10Y tenors had passed all liquidity and quality checks, IBA could interpolate the day-on-day movement for the 9Y based on the day-on-day movement of the neighbouring tenors (8Y and 10Y) from their previous day values. The previous day's reading for the 9Y ICE Swap Rate would then be adjusted by that interpolated movement to arrive at a rate for today.

Numerical Example: USD RATES 1100 - Movement Interpolation for the 9Y tenor

TENOR		ISR RATE	PREVIOUS DAY RATE	Movement	
8Y	t_1	2.14972	2.21482	-0.06510	R_1
9Y	t_n	2.20593	2.26920	-0.06327	R_n
10Y	t_2	2.25394	2.31537	-0.06143	R_2

$$\text{Interpolated Rate Movement} = -0.0651 + \frac{(-0.06143 - (-0.0651))}{(10 - 8)} \times (9 - 8) = -0.06327$$

$$\text{ISR} = \text{Previous Day Rate} + \text{Interpolated Rate Movement}$$

$$\text{ISR} = 2.2692 + (-0.06327) = 2.20593$$

In this consultation, IBA invites views on whether a calculation using Movement Interpolation should be added to the existing methodology in the cases where there is not enough volume from the trading venues for IBA to calculate a rate for a particular tenor on a particular day. In conjunction with the ICE Swap Rate Oversight Committee, IBA would assess the number of consecutive days for which an interpolated rate could be published for a tenor.

Consultation

Please provide your feedback by completing the attached consultation questionnaire and returning it to us on or before **Friday, 24 March 2017**.

When stakeholders' summary comments have been analysed by IBA and considered by IBA's ICE Swap Rate Oversight Committee, IBA will publish a feedback statement.

Attachment: Consultation questionnaire