



ICE Swap Rate Feedback Statement on Expanding the Input Data

February, 25 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 December 2019, IBA published a [consultation paper](#) to seek comments on specific aspects of the proposed waterfall to include other data in addition to Central Limit Order Book (CLOB) data in the calculation of ISR. More general feedback was also welcomed. Respondents were requested to provide feedback to IBA by February 03, 2020.

IBA is grateful to have received 22 responses to the paper. There were 21 individual responses and a consolidated response from ISDA on behalf of 11 of its members. The individual responses were from 18 banks/broker dealers, an Investment Advisor, a Pension Plan Manager and an 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.

In responding to an earlier [request for feedback](#), market participants had expressed support for a "waterfall" approach under which the existing methodology and calculation would be used whenever the underlying market liquidity was sufficient. In times of low liquidity, the additional data sources would be incorporated on a tenor by tenor basis in order to reduce the number of No Publications.

For additional data sources when firm quotes are not available from MTFs or SEFs on inter-dealer CLOBs, IBA is seeking to source non-CLOB data from platforms operated by SEFs, MTFs, OTFs; and/or pricing from, for example, Dealer to Client (D2C) and Request For Quote (RFQ) mechanisms. This was described in the Data Sourcing section of the recent consultation paper.

In the consultation paper, IBA set out three approaches for incorporating proposed additional data when CLOB data is insufficient:

- A: Using D2C data from platforms and, only if this were insufficient, using other RFQ data as a supplement;
- B: Using other RFQ data and, only if this were insufficient, using D2C data from dealer platforms as a supplement; or
- C: Intermingling D2C and other RFQ data.

The majority of respondents preferred approach A, with C as their second preference. Approach B gained very little support as either first or second preference.

IBA also asked for views as to whether the existing data collection window should be used for the additional data. There was broad support for retaining the existing data collection window.

Following discussion with the ICE Swap Rate Oversight Committee, IBA will seek to implement approach A using D2C data from dealer platforms and, only if this were insufficient, using other RFQ data as a supplement. IBA is engaging with potential providers of such additional data and will provide an update to market participants in the coming months.



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](#).



Expanding the Data Set

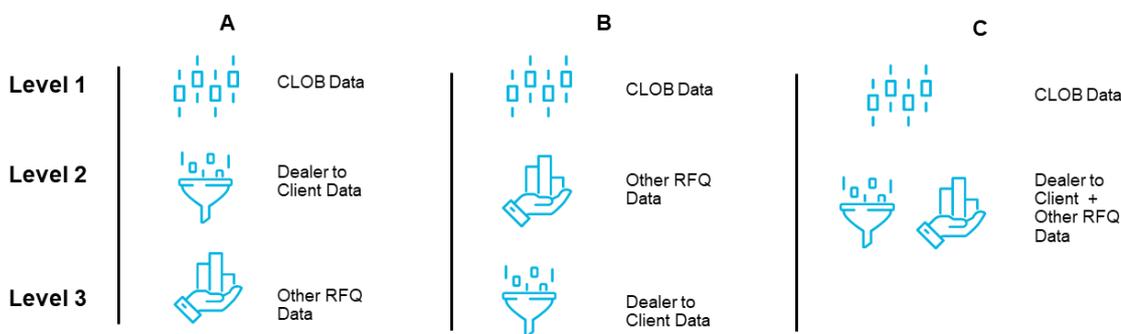
Introduction

For additional data sources when firm quotes are not available from MTFs or SEFs on inter-dealer CLOBs, IBA is seeking to source non-CLOB data from dealer platforms operated by SEFs, MTFs, OTFs; and/or pricing from, for example, Dealer to Client (D2C) and Request For Quote (RFQ) mechanisms. This was described in the Data Sourcing section of the recent [consultation paper](#).

Waterfall Approach

IBA is intending to use a ‘waterfall’ approach under which the existing methodology and calculation will be used whenever the underlying market liquidity is sufficient. In times of low liquidity, the additional data sources will be incorporated on a tenor by tenor basis in order to reduce the number of No Publications.

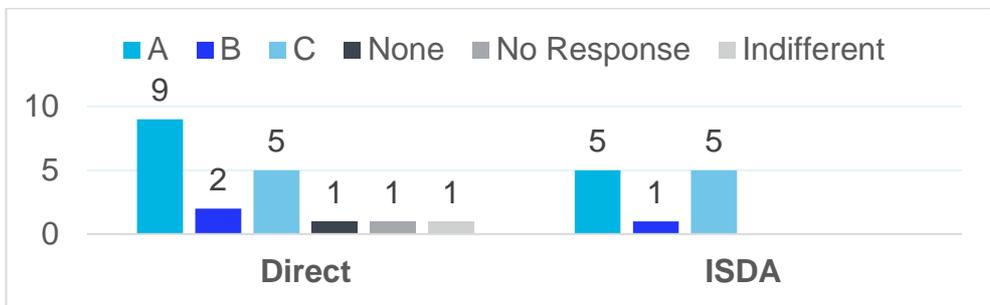
The alternatives approaches in the consultation paper were:



IBA sought responses to the following questions:

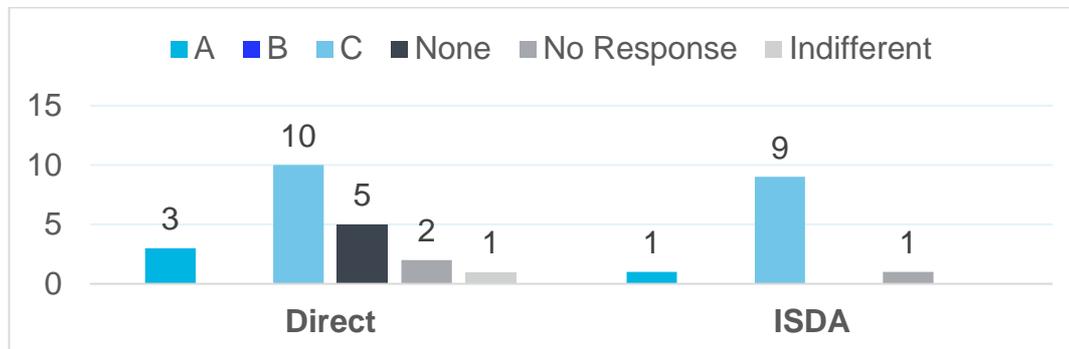
- Q1 Which of the three approaches do you find preferable? A, B or C
- Q2 Which approach would be your second preference? A, B or C
- Q3 Please explain the rationale for your response to Qs 1 & 2.

Approach A was preferred by the majority of respondents, full results can be seen in the below chart:





The second preferences were mostly for approach C, as shown in the following table:



The responses included comments that, in summary, client data is of higher quality and more robust than RFQ data which may not be available for the entire curve and might be off market.

Comments included that:

- If CLOB data is insufficient, there should be enough data by combining D2C and RFQ data to publish the full curve; and
- Reliance on quotes may be impractical as there may not be sufficient liquidity in the absence of CLOB data.

Some respondents expressed a preference for CLOB, D2C and RFQ data to be used at all times with equal weightings.

One respondent did not support disclosing D2C data, preferring the use of futures pricing, or other trading platforms.

Data collection window

IBA would intend to source bids and offers for the same data collection window as is currently used for ISR, which is the final two minutes of the hour before benchmark publication. The questionnaire had the following questions on this:

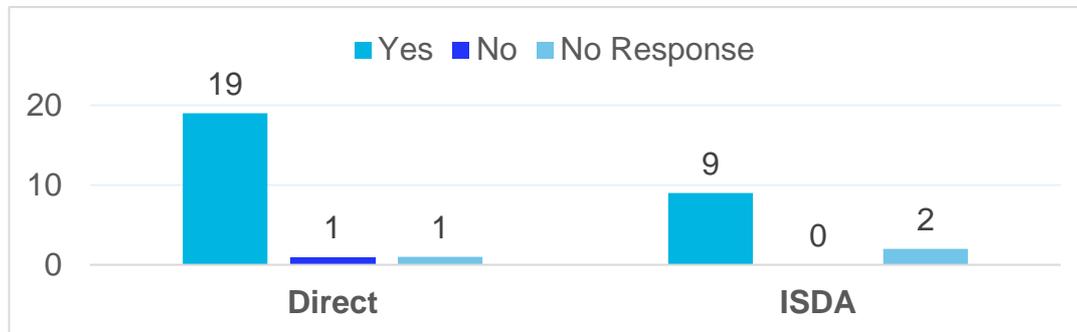
Q4 Do you agree that the existing data collection window should be used for the additional data?
Yes/ No

Q5 If your answer is No to Q4, what data collection window would you prefer?

Q6 If your answer is No to Q4, please explain the rationale for your response to Q5.



There was broad support for retaining the existing data collection window:



Movement Interpolation

IBA proposed the following waterfall steps:

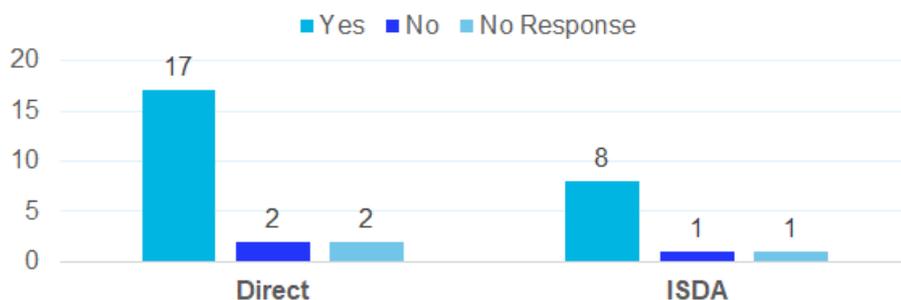
1. Using CLOB data in accordance with the existing ISR methodology, without movement interpolation;
2. Using non-CLOB data if a tenor cannot be produced by means of step 1 above;
3. Using movement interpolation; and
4. If a rate still cannot be produced, making a No Publication for that tenor.

The relevant questions for market participants were:

Q7 *Do you agree with the above waterfall? Yes/No*

Q8 *Please explain the rationale for your response to Q7.*

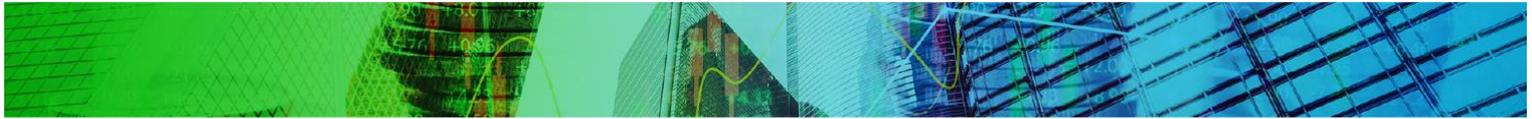
The vast majority of respondents supported the waterfall:



General Feedback

IBA also welcomed more general feedback on ISR, which included, in summary, that:

- D2C data should be firm quotes (with minimum acceptance rates);
- The waterfall should be regularly reviewed as potential for levels of data input importance could change;
- The tenors used to interpolate should both use the same data source;



- Additional tenors should be introduced, such as 35Y, 40Y and 50Y for EUR, GBP and USD;
- Consideration should be given to clearly specifying the Clearing House Swap to which ISR refers. This could alternately be a "blend" per the liquidity volumes in the CLOB, Dealer to Client and Other RFQ formula;
- An alternative step in the waterfall in Q7 could be the inclusion of SONIA ISR for GBP in cases of low liquidity; and
- IBA should consider placing O/N RFR ISR plus the Spread Adjustment for the relevant IBOR as the last level of the waterfall methodology.

Publication of Completed Questionnaires

IBA stated that it would publish completed questionnaire unless confidentiality was requested. All respondents requested confidentiality.



Next Steps

IBA is grateful for the stakeholder feedback and, in conjunction with the ICE Swap Rate Oversight Committee where appropriate, will seek to implement approach A using D2C data from dealer platforms and, only if this were insufficient, using other RFQ data as a supplement.

IBA is engaging with potential providers of such additional data and will provide an update to market participants in the coming months.

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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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