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## **GUIDANCE**

# **ICE Futures Block Trades**

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*January 2007*

## **ICE Futures Guidance on the Block Trade facility**

This Guidance updates earlier Guidance issued and contains a summary overview of the facility followed by detailed Guidance and includes the methods of reporting the Block Trades to the Exchange for registration.

Each Member should ensure that it has appropriate systems and controls in place to ensure that Block Trades are registered in accordance with Exchange Rule F.7.1 and Trading Procedure 17. Failure to do so may render the Member liable to disciplinary action by the Exchange and potentially the FSA.

### **1. Summary overview of the Block Trade facility**

- The Block Trade facility allows Members to bilaterally negotiate ICE Futures Contracts without the normal requirement to first reveal the order to the Market so long as the order meets or exceeds a minimum volume threshold.
- Certain strategy trades not supported by the ICE Platform may qualify as a complex strategy and are therefore subject to a lower minimum volume threshold.
- Block Trades must be reported to the Exchange by one of the three methods set out in point 3(h) of this Guidance
- Block Trades must be reported to the Exchange within 5 minutes of the trade being completed.
- Settlement trades may not be traded as Block Trades. However, as settlement trades executed as calendar spreads are not currently supported by the ICE Platform such trades will qualify as complex strategies and may be registered as Block Trades subject to a lot minimum volume threshold. A minimum volume threshold is the minimum number of lots in respect of each Block Trade Contract that can be traded as a Block Trade. The level is determined by the Exchange and published from time to time; current levels are set out at point 3(c) below.

### **2. Block Trade facility – General**

The Block Trade facility provides for the arrangement of high volume trades and complex strategies by Members 'off Exchange' (i.e. not via the ICE Platform), in relation to specific Contracts designated by the Exchange as Contracts to which the facility applies, and the registration of such trades by the Exchange and subsequent clearing of the trades by LCH.Clearnet Limited ("LCHC")

Block Trades:

- may be for single Contract months, intra month spreads, inter Contract spreads, volatility trades or complex strategies;
- must meet or exceed minimum volume thresholds and must comply with trade order aggregation criteria;
- be at a price considered by the parties to the Contract to be a 'fair market value' price - that is a price considered to be the best available for a trade of that kind and size at that time;
- may, where entered into with or on behalf of a client who is not a Member of the Exchange, only be for a client who is an Intermediate customer or Market counterparty as defined by the FSA Rules. Such client must have been notified prior to the arrangement of any Block Trade, that the client is regarded as an Intermediate customer;
- may, if the Member is authorised by the FSA and this is client business, only be arranged by a person registered with the FSA as an approved person;
- must be submitted to the Exchange within 5 minutes of execution for validation and subsequent processing by Exchange staff;

- are not included in the calculation of any Exchange Index or settlement price;
- are not permitted in relation to settlement trades for single Contract months, however, settlement trades do qualify as a complex strategy when traded as part of a calendar spread and as such can be registered as a Block Trade;
- are identifiable by a 'K' trade type code except for settlement spread trades which will use the 'Z' trade type code; and,
- will be charged the premium Exchange transaction fee of \$1.20 per lot per side.

When using this facility Members must ensure they act with due skill, care and diligence and that the interests of the client(s) are not prejudiced. Members must also be mindful of the FSA's requirements (particularly under the Conduct of Business Sourcebook and the Market Conduct Sourcebook) as well as any fiduciary requirements under law.

### **3. Block Trade facility – the detail**

#### **a) Applicable Contracts**

Block Trades may take place in respect of Contracts designated by the Exchange from time to time as Block Trade Contracts. Currently all Exchange Contracts are designated as Block Trade Contracts.

#### **b) Availability**

Block Trades may, pursuant to Rule F.7.1 only be arranged during specific trading hours and on specific ICE Futures Trading Days as notified by the Exchange from time to time. Currently these specific trading hours are the normal trading hours and all Trading Days.

Block Trades may not be arranged at any other times or after the expiry of the relevant contract month.

#### **c) Minimum volume threshold**

The minimum volume threshold is the minimum number of lots in respect of each Block Trade Contract that can be traded as a Block Trade. The level is determined by the Exchange and published from time to time. They can be found in the Resource Centre on the ICE Futures website. The levels below are those current as at January 2007 and are subject to change by the Exchange. Post publication, this table will not be updated to reflect any changes; therefore the website should be accessed to check/obtain the latest levels.

| <b>Contract</b>               | <b>Minimum volume threshold</b> |
|-------------------------------|---------------------------------|
| ICE Brent Futures             | 600                             |
| ICE Brent Options             | 200                             |
| ICE Gasoil Futures            | 200                             |
| ICE Gasoil Options            | 200                             |
| ICE WTI Futures               | 100                             |
| ICE Heating Oil Futures       | 100                             |
| ICE RBOB Gasoline Futures     | 100                             |
| ICE Rotterdam Coal Futures    | 50                              |
| ICE Richards Bay Coal Futures | 50                              |
| ICE Brent/ WTI Futures Spread | 100                             |

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|---|--|
| ICE Heating Oil/WTI Futures Crack Spread        | 100  |
| ICE RBOB Gasoline/ WTI Futures Crack Spread;    | 100  |
| ICE Gasoil Futures Crack Spread                 | 200  |
| ICE Heating Oil Futures / Gasoil Futures Spread | ICE Heating Oil Futures leg – 75 lots<br>ICE Gasoil Futures leg – 100 lots |
| ICE UK Natural Gas Futures                      | 50   |
| Electricity Contracts                           | 50   |
| ICE ECX CFI Futures                             | 50   |
| ICE ECX CFI Options                             | 50   |
| Volatility Trades                               | 200  |
| Complex strategies                              | 50   |
| Option Complex strategies                       | 50   |

Members may enter into Block Trades which involve the trading of two or more different Contracts or Block Trades that involve the trading of two or more different Contract months and/or strike prices of the same Contract.

Where a Block Trade involves the trading of two or more Contracts, the minimum volume threshold of each Contract comprising the Block Trade will apply to the lot size of the relevant leg of the Block Trade, except where specific provision has been made within the published minimum volume thresholds (e.g. only the minimum volume threshold for the option leg of a volatility trades will apply, in the case of crack spreads the minimum threshold applies to the ICE Gasoil Futures leg).

Where a Block Trade involves the trading of two or more Contract months and/or strike prices of the same Contract, the minimum volume threshold will apply to each side of the Block Trade.

An order for a Block Trade for calendar spreads may be matched with Block Trade orders for individual Contract months provided that all orders involved meet or exceed the minimum volume threshold for that Contract.

Orders for individual months or calendar spreads may be combined to facilitate orders for complex strategies so long as the volume of the complex order meets the minimum volume threshold of the individual month or calendar spread. Members must ensure that combining orders in this way is not to the detriment of any client order.

#### **d) Aggregation of orders in connection with minimum volume thresholds**

Members must not aggregate separate orders in order to meet the minimum volume thresholds. However Members may aggregate separate Block Trade orders that meet or exceed the minimum volume threshold to facilitate the trading of larger Block Trade orders.

When arranging a Block Trade and, in particular, when aggregating orders on the matching side to facilitate execution of a Block Trade (provided no aggregation occurs to meet the minimum volume threshold), Members must ensure that they act with due skill, care and diligence; and the interests of the client(s) are not prejudiced.

#### **e) Restrictions**

Block Trades may, where entered into with or on behalf of a client who is not a Member of the Exchange, only be for a client who is an Intermediate customer or Market counterparty as defined by the FSA Rules. Such client must have been notified prior to arrangement of any Block Trade, that the client is regarded as an Intermediate customer.

Block Trades may not be arranged with or on behalf of any other type of client who is not a Member of the Exchange and may, if the Member is authorised by the FSA, only be arranged by a person registered with the FSA as an approved person.

#### **f) Price**

Members must ensure, when arranging Block Trades, that the price of any Block Trade being quoted represents the fair market value for that trade. This is the price that the Member considers to be the best available for a trade of that kind and type. On each occasion of quoting a Block Trade price, the Member must, at the time, make it clear to the potential counterparty(ies), whether a Member or a client who is not a Member of the Exchange, that the price being quoted is a Block Trade price and not the prevailing Market price.

When determining a Block Trade price, a Member should, in particular, take into account the prevailing price and volume currently available in the Market, the liquidity of the Market and general Market conditions. He is not obliged to obtain prices from other Members, unless this would be appropriate in the circumstances.

Block Trades are not included in the determination or calculation of any settlement price, Index or marker published by the Exchange, nor do they affect the daily published high and low trades.

#### **g) Submission for registration**

Once a Block Trade has been organised the Members must submit the Block Trade details to the Exchange in accordance with ICE Futures Trading Procedure 17.

A decision by the Exchange not to register a Block Trade is final.

#### **h) Registration of Block Trades**

Block Trades may be reported to the Exchange for registration in 1 of 3 ways:

- (i) By online submission to the ICE website – non-cross trades;
- (ii) By fax or e-mail submission of entry form;
- (iii) By entry of the details to the ICE Block facility – cross trades only.

These are set out below.

##### **(i) Online submission**

The Exchange provides a facility where Members may report non-cross Block Trades online via the Exchange website, the details of which are set out below.

Details of non-cross Block Trades may be reported by both Members party to the trade completing and submitting BlockTrade Entry Forms online. For the purposes of this Guidance these Forms will be referred to as "Online Forms". There are three Online Forms on the website, one for online submission of Block Trades for Oil Contracts, one for online submission of Block Trade for Utility, Coal and Emission Contracts and a further one for online submission of Block Trades for Options Contracts. All Online Forms are similar in format and layout to those completed and faxed to the Exchange.

The direct links to these Online Forms are:

Oil Contracts: [https://www.theice.com/icefutures\\_forms/brentGasOilFutures.jsp](https://www.theice.com/icefutures_forms/brentGasOilFutures.jsp)

Utility/Coal/  
Emission Contracts: [https://www.theice.com/icefutures\\_forms/natGasElecEcxFutures.jsp](https://www.theice.com/icefutures_forms/natGasElecEcxFutures.jsp)

Option Contracts: [https://www.theice.com/icefutures\\_forms/brentGasOilOptions.jsp](https://www.theice.com/icefutures_forms/brentGasOilOptions.jsp)

Members may access the Online Forms by: using the link [https://www.theice.com/about\\_futures.jhtml](https://www.theice.com/about_futures.jhtml), scrolling to the bottom of the page and selecting the appropriate Online Form; or, by selecting ICE Futures from the Markets and Technology drop down menu on the website ([www.theice.com](http://www.theice.com)) and scrolling to the bottom of the page and selecting the appropriate Online Form.

#### **Audit trail/record of submission of Online Form**

During completion of the Online Form, a 'trader e-mail' address must be entered. Once the details of the Trade(s) have been entered to the Online Form and the Online Form submitted, an e-mail confirmation of details entered is generated and sent to that 'trader e-mail' address for record purposes. Additionally, an e-mail is generated and sent to a designated e-mail address within the Exchange Market Supervision department where, upon receipt, the Block Trades are processed by ICE Futures staff.

#### **(ii) Fax or e-mail submission**

Members who prefer to send a fax or e-mail of the Block Trade details to the Exchange may do so. The Forms for this purpose can be obtained from the website. Direct links to these Forms on the website follow:

Oil Contracts

[https://www.theice.com/publicdocs/futures/ICE\\_Futures\\_Brent\\_Gas\\_EFP\\_EFS\\_BLOCK\\_CAL\\_Form.doc](https://www.theice.com/publicdocs/futures/ICE_Futures_Brent_Gas_EFP_EFS_BLOCK_CAL_Form.doc)

Utility/Coal/Emission Contracts

[https://www.theice.com/publicdocs/futures/ICE\\_Futures\\_Nat\\_Gas\\_Elec\\_ECX\\_EFP\\_EFS\\_BLOCK\\_CAL\\_Form.doc](https://www.theice.com/publicdocs/futures/ICE_Futures_Nat_Gas_Elec_ECX_EFP_EFS_BLOCK_CAL_Form.doc)

Option Contracts

[https://www.theice.com/publicdocs/futures/ICE\\_Futures\\_Brent\\_Gas\\_EFP\\_EFS\\_BLOCK\\_CAL\\_Form\\_options.doc](https://www.theice.com/publicdocs/futures/ICE_Futures_Brent_Gas_EFP_EFS_BLOCK_CAL_Form_options.doc)

Alternatively, these Forms may be downloaded by following the instruction to "click here" at the bottom of the relevant Online Form, the links to which are detailed above under the heading of "Online Submission". The fax number to which these Forms may be faxed is unchanged as **+44 (0) 20 7265 1706**. The e-mail address to which the details may be sent is [marketsupervisionforms@theice.com](mailto:marketsupervisionforms@theice.com).

#### **(iii) ICE Block facility**

The ICE Block facility is for the entry of cross Block Trades. Further details in relation to the ICE Block facility may be obtained from Market Supervision on +44 (0) 207 265 3772

Details of a Block Trade must be submitted for validation and subsequent registration within 5 minutes of the time verbal agreement on the terms of the Block Trade was reached between the parties. The time of the arrangement of the Block Trade must be recorded by the Members arranging the Block Trade on the order slip. Members must not delay reporting the Block Trade to the Exchange.

An ICE Futures Market Supervisor will check the validity of the Block Trade details submitted by the parties to the Block Trade. If the ICE Futures Market Supervisor (following consultation, where necessary, with LCHC and subject to their right to refuse registration) is satisfied that all such details are valid, he will authorise execution of the Block Trade. Any decision by the Exchange not to register the Block Trade is final.

The Block Trade price and volume will be broadcast to the Market via the ICE Platform.

The Block Trade is registered under the executing Members' company mnemonic with a trade type of 'K'.

Authorisation by an ICE Futures Market Supervisor of a transaction does not preclude the Exchange from instigating disciplinary procedures in the event that the transaction is subsequently found to have been made other than in compliance with the Regulations.

**i) Registration by LCHC**

During the consultation (where applicable) between the Exchange and LCHC referred to in point h) above, LCHC will risk assess the Block Trade and where insufficient funds are held, may call for additional margin from the clearing member.

**j) Complex strategies - futures**

For the purposes of the Block Trade facility, the recognised futures strategies have the following meanings:

*Butterfly spreads*

The simultaneous purchase and sale of two calendar spreads i.e. Buy January/February to Sell February/March, or the simultaneous purchase and sale of two calendar spreads sharing a common month i.e. Buy June 07/December 07 to Sell December 07/June 08;

*Condor spread*

The simultaneous purchase and sale of two calendar spreads i.e. Buy January/February to Sell March/April;

*Strip trades*

The simultaneous purchase or sale of two or more consecutive contract months i.e. January/February/March, priced either individually or on an average price basis. Strip trades involving quarter months i.e. March/June/September/December are also permissible;

*Settlement spread trades*

A contingent order to buy one contract month at settlement price and selling another contract month at settlement price; and,

*Non-standard crack spreads*

Standard crack spreads are those listed on the ICE Platform and are not eligible to use the complex trade volume thresholds for Block Trades.

Non-standard crack spreads are those involving months or combinations of months other than those listed on the ICE Platform and those crack spreads with a ratio other than 4:3.

Further, Block Trades may be arranged for the ICE Brent Futures leg of an ICE Brent Futures/NYMEX WTI arbitrage, and the ICE Gasoil Futures leg of an ICE Gasoil Futures/NYMEX Heating Oil arbitrage.

**k) Complex strategies - options**

This facility has been introduced to allow Members to trade with certainty of execution for contingent order types which are not currently supported by the ICE Platform. A lower volume threshold of 50 lots will apply to complex strategies

The Exchange does not propose to enumerate all possible options strategies which may qualify as complex strategies but the following strategies will be recognised as complex strategies by the Exchange.

*Ratio call and put spreads*

*Condors*

*Butterflies*

*Iron butterflies*

*Conversions/reversals*

*Ladders*

*Diagonal spreads*

Members wishing to register other contingent orders as complex strategies may apply to the ICE Futures Market Supervisor for recognition of the strategy, the decision of the ICE Futures Market Supervisor as to whether or not a contingent order qualifies as a complex strategy will be final and binding.

All complex strategies may also be submitted as volatility trades, the 50 lot volume threshold applicable to a volatility trade is in respect of the options leg, the volume of the futures leg may be less than the options leg depending on the relevant delta.