ICE FUTURES EUROPE

CIRCULAR

CIRCULAR 14/127

10 October 2014

Category:

Trading

Attachments:

Rule Section FFFFF

Summary of content:

Liffe Migration – Fixed Income Part 2

For more information please contact:

Market Supervision Europe
+44 (0)20 7382 8200
Marketsupervision-europe@theice.com

Liffe Migration – Fixed Income Part 2

The purpose of this Circular is to advise Members, further to the announcement of the Migration of Liffe Contracts to ICE Futures Europe, in Circular 14/108 dated 16 September 2014, of the following information relating to Fixed Income Contracts transitioning with a first trade date 20 October 2014:

- Trading Hours
- Crossing Methods
- Designated Settlement Procedures
- Settlement Volume Thresholds
- Matching Algorithm
- Indicative Opening Price
- Trade Adjust and Cancellation Policy
- No Cancellation Ranges and Reasonability Limits
- Interval Price Limits
- Pack and Bundle Pricing Convention
- Amendments to Contract Specifications for STIR Options

20 October 2014 – Fixed Income Contracts, Part 2:

- Three Month Sterling Futures and Options
- Three Month Sterling One, Two, Three and Four Year Mid-Curve Options
- Long Gilt Futures and Options
- Ultra Long Gilt Futures

Trading Hours (London Time)

Please note there is no Pre-open session for Option Contracts.

Contract	Pre-open	Open	Close
Three Month Sterling Futures	06:03	07:30	18:00
Three Month Sterling Options	N/A	07:30	18:00
Three Month Sterling One, Two, Three and Four Year Mid-Curve Options	N/A	07:30	18:00
Long Gilt Futures	06:03	08:00	18:00
Long Gilt Options	N/A	08:00	18:00
Ultra Long Gilt Futures	06:03	08:00	18:00

Crossing Methods

Cross transactions in respect of Short Sterling (including Mid-Curve) Options and Long Gilt Options must be submitted using the Guaranteed Cross method. Where there is no bid and/or no offer for the relevant contract month or strategy in these Contracts, a Request for Quote (RFQ) must first be entered for such contract month or strategy. The matching business may only be entered to the ICE Platform where a period of five seconds ("the RFQ period") has elapsed. If the matching business is to be submitted, the applicable buy and sell orders must be submitted as soon as practicable and, in any event, no later than thirty seconds following the RFQ period.

Cross transactions in respect of Short Sterling Futures and Long Gilt and Ultra Long Gilt Futures must be submitted using the Crossing Order method. The Crossing Order method utilises functionality built into the ICE Platform to enable users to submit matching business ("the Crossing Order") in one message. The functionality will generate an automatic RFQ and builds in the required time period for which the RFQ will be exposed to the marketplace before the Crossing Order is activated and evaluated against other orders in the order book.

Please see the Pre-Execution Communications and Crossing Guidance for further details

https://www.theice.com/publicdocs/futures/ICE_Pre_Execution_Communications_and_Crossing.pdf

Designated Settlement Procedures

Daily Settlements will be calculated in accordance with ICE Futures Trading Procedures 2.4:
https://www.theice.com/publicdocs/contractregs/108_XX_TRADING_PROCEDURES.pdf

Designated Settlement Window (London Time)	
Three Month Sterling Futures	16:05 – 16:15
Three Month Sterling Options	16:05 – 16:15
Three Month Sterling One, Two, Three and Four Year Mid-Curve Options	16:05 – 16:15
Long Gilt Futures	16:13 – 16:15
Ultra Long Gilt Futures	16:13 – 16:15

Settlement Volume Thresholds

The Settlement Volume Thresholds establish the minimum volume of trades which needs to be completed during the relevant Settlement period for the purposes of calculating prices by means of a trade weighted average calculation. The Settlement Volume Thresholds are set on a contract by contract basis determined by the Exchange.

Settlement Volume Thresholds	
Three Month Sterling Futures	250
Three Month Sterling Options	250
Three Month Sterling One, Two, Three and Four Year Mid-Curve Options	250
Long Gilt Futures	50
Ultra Long Gilt Futures	50

The full table of Settlement Volume Thresholds can be found at:
https://www.theice.com/publicdocs/futures/ICE_Futures_Settlement_Volume_Threshold.pdf

Matching Algorithm

The Gradual Time Based Pro Rata (GTBPR) matching algorithm combines a priority component with a time and volume weighted (pro rata) allocation, and is used for allocating incoming order volume to resting bids and offers at each price level in the central order book. The best price in the market must always be fully traded before the next best price is considered. The priority order is subject to a minimum order volume (collar) and a maximum priority volume (cap), where an order will receive priority if it is above the collar and will be filled in full up to the cap before any other order is filled.

Once the priority order has been filled, all resting orders (including the priority order) will participate in pro rata allocation using the GTBPR matching algorithm. The GTBPR algorithm includes a Time Weight component, and performs a pro rata allocation based on resting order volume, modified by the Time Weight. A greater Time Weight increases the allocation of volume to older orders in the order book. If the Time Weight is 1 then the allocation will essentially be a pure pro rata allocation.

The table below details the Contracts that are subject to this algorithm along with the collar and cap thresholds to achieve priority:

Contract	Matching Algorithm	Collar	Cap	Time Weight
Three Month Sterling Futures	**GTBPR**	50	500	4
Three Month Sterling Options	**GTBPR***	100	500	1
Three Month Sterling One, Two, Three and Four Year Mid-Curve Options	**GTBPR***	100	500	1

*GTBPR with Time Weight = 1 is equivalent to Priority Pro Rata

Key Features of GTBPR

Priority Order:

- Gains priority if it improves the current best price (bid or ask) in the market, and the order volume is equal to or greater than the collar
- Will have priority until filled quantity reaches the cap
- Only one bid and one offer per expiry can ever have priority
- Only when the priority cap is satisfied will GTBPR allocation occur with all orders in the central order book (including the priority order)
- Priority can be lost for an order by withdrawing, increasing the order quantity, reducing the quantity to be below the collar, changing the price or by another order gaining priority

Explicit/Implied Books:

- ICE will use pro rata to split volume between the explicit and implied volume
- Reserve quantity will not be included when allocating volume

during this split, only the shown quantity will be used
- If volume is equal between explicit and implied book an incoming 1 lot order will be allocated to the explicit book

Implied Allocation
- ICE will allocate assigned volume to the longest derived chain at best price (implied price generated from largest number of spreads)
- Allocations of all implied volume will be subject to the FIFO ('First In First Out') matching algorithm, to both the implied price level and to all the explicit orders that make up that implied price

Explicit Allocation
- ICE will allocate assigned volume using the GTBPR algorithm
- For reserve (iceberg) orders only the shown quantity will be used in this allocation
- If incoming order volume remains, a second pass will occur on any reserve quantity before moving on to the next price level

For the following Contracts, the matching algorithm will be FIFO. The "best" price order always has the highest priority; for buy orders that means those orders that have the highest price, and for sell orders that means those orders with the lowest price. If more than one order is in the market at a specific price, the highest priority is given to the order that arrived in the electronic trading system first:

Contract	Matching Algorithm
Long Gilt Futures	**FIFO**
Ultra Long Gilt Futures	**FIFO**

Indicative Opening Price

During the Pre-open session, the Exchange calculates an Indicative Opening Price (IOP) based on bids and offers in the Central Order Book. The IOP is published to the market every 60 seconds from the Pre-open up to the Open. During the Pre-open session bids and offers in the Central Order Book are not visible to market participants.

Effective 20 October 2014, the IOP will be published to the market every 15 seconds from the Pre-open up to the Open.

Trade Adjustment and Cancellation Policy

Members are advised that transactions determined by the Exchange to be at an unrepresentative price will be adjusted to a trade price that the Market Supervision Official evaluates as fair market value at the time of execution, plus or minus the No Cancellation Range (NCR) for that contract. In the event that there are a significant number of counterparties, transactions or contracts associated with the error trade, or any other factor deemed relevant by the Exchange, the Market Supervision Official has the authority to cancel trades rather than adjust prices. The decision of the Market Supervision Official is final.

The Price Adjust facility is a cancellation of the original deal and the creation of a new deal with all information retained except for a new deal id, trade price and reference to the cancelled deal. Any trades that are associated, with a deal that is adjusted, will also have a new deal created with the original deal cancelled.

The Trade Adjustment and Cancellation policy can be found on the ICE Website at;
https://www.theice.com/publicdocs/futures/Trade_Adjustment_Policy.pdf

No Cancellation Ranges and Reasonability Limits – Futures

No Cancellation Ranges are Exchange-set parameters above or below fair market value, within which a disputed trade will not be subjected to price adjustment or cancellation.

Reasonability Limits are Exchange-set parameters beyond which the trading server will not accept orders.

Contract	NCR	RL	Pre-Open RL
Three Month Sterling Futures	0.10	0.10	0.15
Long Gilt Futures	0.15	0.15	0.30
Ultra Long Gilt Futures	0.30	0.30	0.30

Pre- Open Reasonability Limits will be set prior to the market opening and will revert to the normal RL settings shortly after the open

No Cancellation Ranges - Options

Contract	No Cancellation Range	Minimum Value
ICE Three Month Sterling Options	25% of premium up to 200% of futures NCR	0.05
ICE Three Month Sterling 1 yr Mid Curve Options	25% of premium up to 200% of futures NCR	0.05
ICE Three Month Sterling 2 yr Mid Curve Options	25% of premium up to 200% of futures NCR	0.05
ICE Three Month Sterling 3 yr Mid Curve Options	25% of premium up to 200% of futures NCR	0.05
ICE Three Month Sterling 4 yr Mid Curve Options	25% of premium up to 200% of futures NCR	0.05
ICE Long Gilt Options	25% of premium up to 200% of futures NCR	£0.05

The table of No Cancellation Ranges and Reasonability Limits can be found at:
https://www.theice.com/publicdocs/futures/No_Cancellation_Ranges.pdf

Interval Price Limits

The Interval Price Limit (IPL) provides functionality to limit large price movements from occurring within a given time frame. For each contract there will be a set limit, the IPL, to which prices can move within a set time frame known as the re-calculation time. If a bid or offer attempts to breach the IPL the market will enter a hold period preventing any further trading beyond the limit until the end of the hold period. Trading can still continue during the hold period within the upper and lower parameters of the IPL. At the end of the hold period new parameters are set based on the prevailing market prices.

Contract	IPL	IPL Recalc	RL Hold
Three Month Sterling Futures	0.20	3 seconds	5 seconds
Long Gilt Futures	0.25	3 seconds	5 seconds
Ultra Long Gilt Futures	0.50	3 seconds	15 seconds

Pack and Bundle Leg Pricing – Average Difference Change Pricing

Packs and Bundles prices will be quoted using the annualised price convention, also known as Average Difference Change (ADC) Pricing. The tick increment to be used in the pack and bundle markets for Three Month Sterling Futures will be:

Packs & Bundles	Screen Price Increment	Price in Basis Points	Leg Price Assignment Increment
Three Month Sterling	0.50	0.0050	0.01

The Exchange will use a price factor of 100 to convert the displayed screen price of a pack or bundle into basis point tick increments. Packs and Bundles leg prices will be assigned in whole basis points and allocated starting from the back months of the strategy and moving forwards. For example: a user submits a price of 2.50, which is then converted to 0.025 ticks by dividing the price by the price factor (2.50/100). This tick price can then be assigned to each individual leg price.

Example of the ADC Price Convention

A pack consists of the following months:

Months	Settle
15-Mar	99.56
15-Jun	99.50
15-Sep	99.01
15-Dec	98.98

Example 1: A transaction occurs in the pack @ 2.50 (screen price).

Trading Engine will divide that price by 100 to give 0.025. Multiply that price by the number of legs to get how many ticks to give in total: 0.025 * 4 = 0.10. These ticks are given to the legs in 0.01 increments. The 10 ticks would be given evenly (2 per month) with the 2 leftover ticks given to Dec 15 and Sep 15 ie working forwards from the back month of the strategy. In this example the final leg prices would be:

Months	Settle	Leg Price	Diff
15-Mar	99.56	99.58	0.02
15-Jun	99.50	99.52	0.02
15-Sep	99.01	99.04	0.03
15-Dec	98.98	99.01	0.03

Amendments to Contract Specifications for STIR Options

Members are advised that minor corrections to typographical errors have been made to Section FFFFF with immediate effect:

- For Short Sterling Options and Mid Curve Options the ‘Price Unit’ has been changed from 0.01 to 0.005 and the ‘Price Unit Value’ has been changed from £12.50 to £6.25.
- For Euribor Options and Mid Curve Options the ‘Price Unit’ has been changed from 0.01 to 0.005 and the ‘Price Unit Value’ has been changed from €25.00 to €12.50
- For Euroswiss Options the ‘Price Unit’ has been changed from 0.01 to 0.005 and the ‘Price Unit Value’ has been changed from SFr25.00 to SFr12.50

Members should be aware that these changes do not impact the functionality of the STIR Options.

Members with any queries should contact Market Supervision Europe on +44 (0)20 7382 8200 or by email to: marketsupervision-europe@theice.com.

Please ensure that the appropriate members of staff within your organisation and customers are advised of the content of this Circular.

Signed:

Patrick Davis
Company Secretary