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## **GUIDANCE**

# **ICE Futures EFP EFS Policy**

**January 2007**

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## **ICE Futures Guidance on the Exchange for Physical (“EFP”) and Exchange for Swaps (“EFS”) trading facilities**

This Guidance updates earlier Guidance issued and contains a summary overview of each facility followed by detailed Guidance on the permitted use of the EFP/EFS facilities and the factors to be considered when bringing an OTC position on-Exchange. It further includes the timings and methods of reporting the EFP/EFS trades to the Exchange for registration.

Each Member should ensure that it has appropriate systems and controls in place to ensure that EFPs and EFSs are registered in accordance with Exchange Regulations. Failure to do so may render the Member liable to disciplinary action by the Exchange and potentially the FSA.

### **1. Summary overview of EFP and EFS facilities**

- The EFP facility allows Members to register Futures trades linked to physical and forward transactions.
- The EFS facility allows Members to register futures trades linked to swap transactions.
- The ICE Brent Futures leg of an ICE Brent Futures/Nymex WTI trade may be registered using the EFS facility.
- EFP/EFSs must be reported to the Exchange by one of the three methods set out in point 4(b) of this Guidance.
- EFP and EFS trades may be submitted to the Exchange at any time during the hours set out below in point 4 (a) of this Guidance.
- On the day of the expiry of a contract month/date, EFP and EFS trades in respect of the expiring contract date/month may be submitted to the Exchange up to the times set out in point 4(a) below.
- EFS transactions in respect of options for an expiring contract month cannot be registered after the cessation of trading for the relevant expiring contract month.
- The Exchange may require Members to supply evidence of the underlying physical or swap transaction either prior to or following registration of the trade and may refuse registration in its sole and final discretion.

### **2. Permitted use of EFP/EFS facilities**

The two key uses of the EFP/EFS facilities are as follows: -

1. To permit bilaterally traded physical and paper transactions to be hedged using ICE Futures contracts in a single contingent transaction (e.g. where the seller of a crude oil cargo becomes the buyer of Futures and the buyer of a crude oil cargo becomes a seller of Futures).
2. To enable holders of OTC swap positions to replace them with the equivalent in ICE Futures contracts.

There are a number of pricing mechanisms that are used OTC which the Exchange will accept on an EFP/EFS registration basis.

These include, inter alia

<ul style="list-style-type: none"> <li>• BWAVE - Brent Weighted Average price</li> <li>• GWAVE - Gasoil Weighted Average price</li> <li>• MOPs - Mean of Platts price</li> <li>• ICE Futures marker prices</li> </ul>	<p>When an OTC swap or physical transaction is based on the ICE BWAVE, the ICE GWAVE, ICE Futures marker or MOPs and the OTC contract has been executed contingent on its conversion into ICE Futures at an agreed time, date or trigger point subsequent to the trade.</p> <p>(excluding any tradable marker e.g. the Brent Afternoon Marker)</p>
<ul style="list-style-type: none"> <li>• OTC Options</li> </ul>	<p>When an OTC option can expire into ICE Futures at the strike price at expiry or other agreed trigger point.</p>
<ul style="list-style-type: none"> <li>• ICE Brent/Nymex WTI arbitrage</li> </ul>	<p>Where the ICE leg of an arbitrage trade can be converted into ICE Brent Futures where it has been traded as a contingent arbitrage trade as opposed to legging across the two Exchanges.</p>

For the purposes of this Guidance and the Exchange Regulations, the Exchange considers these and similar instruments to be legitimate OTC transactions, the crucial factor being that they are not tradable on the Exchange and therefore are eligible to be registered on the Exchange using the EFP/EFS facility.

As OTC transactions, the trading of such instruments is outside the jurisdiction of the Exchange Regulations until they are brought onto the Exchange. For the avoidance of doubt the negotiation of the purchase or sale of such instruments will not be considered by the Exchange as a breach of Exchange Rule G.4 which prohibits prior arrangement.

Obviously Members and clients will need to ensure that, in bringing the contracts on-Exchange, they comply with all applicable Exchange Regulations. In addition, Members and clients should also satisfy themselves that the relevant requirements of the Financial Services Authority's Code of Market Conduct are satisfied.

### 3. Factors to be considered when bringing an OTC position on-Exchange

The limiting factors on acceptance of EFP/EFS registration are:

- In the case of EFP transactions, the underlying OTC contract must be properly documented and available for production to the ICE Futures compliance department on demand in order to validate its legitimacy. In this context proper documentation is a legally binding bilateral contract between market participants - who may be Members or not. The contract should be either an industry standard contract or one whose terms are of an equivalent standard identifying the OTC product being traded, the price or prices involved and the mechanism by which the contracts may be converted into ICE Futures. In the case of EFS transactions for instruments such as ICE Futures markers and/or the ICE Brent/Nymex WTI arbitrage, this requirement may be satisfied by providing order documentation such as order slips, confirmation notes or copies of a trader's blotter;

- The facility is not designed or intended to allow users of the market to circumvent the normal trading Rules and therefore the Exchange will not authorise the use of the facility for look-alike contracts;
- The facility is not designed or intended to facilitate the transfer of funds between parties and/or locations whether for money laundering, resolution of errors or any other purpose other than as a consequence of normal commercial activity. If the Exchange is not satisfied that there is a legitimate commercial rationale for the EFP/EFS, registration will be refused;
- If the registration price is not at the current market price or is outside those parameters announced by the Exchange from time to time, the Exchange must be satisfied that the transaction is a legitimate use of the facility before registration can take place. The Exchange may request sight of evidence to confirm the legitimacy of the underlying transaction whether by sight of contract notes or otherwise. In any event the Exchange will retrospectively monitor a random sample of accepted EFP/EFSs to ensure that there was a legitimate underlying transaction behind the EFP/EFS.

These parameters are currently at, or within, the following differentials from the previous day's official settlement price:

ICE Brent Futures:	Plus/minus \$0.30 per lot
ICE Gasoil Futures:	Plus/minus \$3.00 per lot
ICE UK Natural Gas Futures:	Plus/minus £0.01 (1.0 pence) per lot
ICE UK Base and Peak Electricity Futures:	Plus/minus £1.00 per lot
ICE ECX CFI Futures:	Plus/minus €1.00 per lot
ICE WTI Futures:	Plus/minus \$0.30 per lot
ICE RBOB Gasoline:	Plus/minus \$0.005 per lot
ICE Heating Oil Futures:	Plus/minus \$0.005 per lot
ICE Coal Contracts	Plus/minus \$0.25 per lot

or within the high/low range of the day.

The Exchange may amend the parameters at any time as necessary;

- Any EFP/EFS to be registered which falls within one of these limits will be automatically accepted for registration by the Exchange. Those outside these parameters will require approval from the compliance department who may ask for further documentation in support of the registration as outlined in Rule F.5(e). Members will appreciate that the processing of such trades will be significantly quicker on most occasions if such documentation is provided at the time of requesting the registration; and
- Members should ensure that LCH.Clearnet Limited ("LCHC") holds sufficient cover to offset any negative variation margin which results from the posting of an EFP or EFS. LCHC may also require that sufficient cover is held on account to meet any consequential change to initial margin. **Failure to do so may result in a refusal by LCHC to register the trade in accordance with LCHC General Regulation 9 (c).** To ensure that this requirement is fulfilled, relevant Exchange staff will examine all EFPs and EFSs as they are presented for registration and if necessary registration may be delayed until both the Exchange and LCHC are satisfied that funds in the relevant Member's LCHC account are adequate.

## 4. Procedures for the reporting of EFP and EFS trades to the Exchange

### a) Reporting time limits

Reporting of EFP/EFS trades may take place at any time for all eligible Futures and Options Contracts during trading hours and for 30 minutes after the close of the relevant individual Contract (or the close of TRS whatever is the earlier).

On an expiry day, for all ICE Futures Contracts except ICE UK Natural Gas Futures and ICE ECX CFI Futures, EFP/EFSs in respect of the expiring contract date/month may be reported up to one hour after the expiry of the contract date/month. In the case of ICE UK Natural Gas Futures and ICE ECX CFI Futures, EFP/EFSs may only be reported up to 30 minutes after the expiry of the relevant contract month/date.

On the expiry day for all ICE Options, EFSs may be reported up to the end of the designated settlement period of the underlying Futures contract. Further details are set out in Rule F.5 and Trading Procedure 16.

EFPs and EFSs may be reported by one of three methods set out below.

### b) Reporting procedures

EFP EFS 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.

#### (i) Online submission

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

Details of non-cross EFP/EFS trades may be reported by both Members party to the trade completing and submitting EFP and EFS Trade 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 EFP/EFS trades for Oil Contracts, one for online submission of EFP/EFS trades for Utility, Coal and Emission Contracts and a further one for online submission of EFS 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 EFP/EFS 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 EFP/EFS 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 EFP/EFS trades. Further details in relation to the ICE Block facility may be obtained from Market Supervision on +44 (0) 207 265 3772.

Any questions arising from this Guidance should be addressed to:

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