ICE FUTURES EUROPE

GUIDANCE

ICE Futures Europe Exchange of Futures for (Related) Market Policy

June 2012

ICE Futures Europe Guidance on the Exchange of Futures for (Related) Market ("EFM") trading facility

1. General

This Guidance contains a summary overview of the Exchange of Futures for (Related) Market ("EFM") facility provided by the Exchange followed by detailed Guidance on the permitted use of the EFM facility and the factors to be considered when using it to:

- Exchange an ICE Futures Europe Brent Futures/Options Contract ("Brent Contracts") to an ICE Futures Europe Brent NX Futures/Options Contract ("Brent NX Contracts"); or
- Exchange an ICE Futures Gasoil Futures/Options Contract ("Gasoil Contracts") to an ICE Futures Europe Low Sulphur Gasoil Futures/Options Contract ("LS Gasoil Contract")

It further includes the timings and method of reporting the EFM transactions to the Exchange.

2. Systems, Controls and Regulations

Each Member should ensure:

- that it is appropriately authorised and holds all necessary licenses and consents in accordance with Exchange Regulation B.3.1(h);

- that it has appropriate systems and controls in place in order to conduct business on the ICE Platform;

- that EFM transactions are reported in accordance with Exchange Regulations and this Guidance;

- that it acts with due skill, care and diligence; and the interests of the client(s) are not prejudiced at all times, including when using ICE Block; and

- that the relevant requirements of the Financial Services Authority's Code of Market Conduct are satisfied.

Failure to do so may render the Member liable to disciplinary action by the Exchange and potentially the Financial Services Authority and/or other regulatory bodies.

3. Summary overview of EFM facilities

- The following guidance refers to "Source Contracts" and "Destination Contracts" which are defined as follows:

Source Contracts	Destination Contracts
Brent Contracts	Brent NX Contracts
Gasoil Contracts	LS Gasoil Contracts

- The EFM facility allows Members to register transactions which exchange positions from Source Contracts to Destination Contracts.

- EFM transactions may only be used to reduce positions in existing Source Contracts and create/increase corresponding positions in Destination Contracts.

- EFMs must be reported to the Exchange by the method set out in point 4(b) of this Guidance.

- EFM transactions may be submitted to the Exchange at any time during the hours set out below in point 5 (a) of this Guidance.

- On the day of the expiry of a contract month/date, EFM transactions in respect of the expiring contract date/month may be submitted to the Exchange up to the times set out in point 5(a) below.

- EFM 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 documentation, such as order slips, trader's blotter etc as evidence that the transaction was accurately recorded and arranged. The Exchange will be prepared to accept a deal confirmation providing that it clearly states the terms of the transaction, *inter alia*: the contract month being traded, the price or prices involved, the mechanism by which the contracts may be converted into an ICE Contract (i.e. by EFM), the counterparties to the trade and clarifies that the execution of the EFM is dependent on acceptance of the registration by the Exchange.

- The Exchange would expect disclosure of all parties involved in the transaction when registering the transaction with the Exchange.

- From time to time the Exchange may advise Members of additional permitted uses for EFM transactions.

- EFM volumes will be included in the Exchange for Swap ("EFS") volumes reported on WebICE and in Exchange reports.

4. Factors to be considered when registering an EFM

The limiting factors on acceptance of EFM registration are:

- EFM transactions may only be used to reduce an existing position in the Source Contract and exchange all, or a portion of it for a position in the corresponding Destination Contract. For the avoidance of doubt:

  o An EFM transaction must reduce the magnitude of the counterparties' existing position in the Source Contract;

  o An EFM transaction must not be for a quantity greater than the outstanding position in the Source Contract for either counterparty.

- There is no minimum size for an EFM transaction.

- An EFM transaction is registered as two legs – a Source Contract, of opposite direction to the existing Source Contract, and a Destination Contract.

- 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 to exchange a Source Contract for a Destination Contract. If the Exchange is not satisfied that the facility is being used for this purpose, registration will be refused;

- To accommodate Members pricing/hedging requirements for off-Exchange business, EFMs may be registered as a straight exchange between corresponding contract months in the Brent Contract and the Brent NX Contract; or as an exchange of a given contract month in the Brent Contract for the following adjacent contract month in the Brent NX Contract. Taking the example of a May 20nn ICE Brent position the following two scenarios are acceptable:

  May 20nn ICE Brent Position exchanges to **May** 20nn ICE Brent NX
  May 20nn ICE Brent Position exchanges to **June** 20nn ICE Brent NX

  No other combination of contract months will be accepted.

- EFMs from Gasoil Contracts may only be registered as a straight exchange to the corresponding contract month in LS Gasoil Contracts

- EFMs should only be registered within price parameters defined by the Exchange:

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

ICE Futures Europe Brent Futures Contract:	plus/minus $0.30/bbl
ICE Futures Europe Brent NX Futures Contract:	plus/minus $0.30/bbl
ICE Futures Europe Gasoil Futures Contract:	plus/minus $40.0/mt
ICE Futures Europe Low Sulphur Gasoil Futures Contract:	plus/minus $40.0/mt

  or within the high/low range of the day.

  The Exchange may amend the parameters at any time as necessary. Where the EFM is registered between one Brent contract month and the subsequent Brent NX contract month the price parameters will be derived from the outright settlement price or current high/low range of the day in the respective outright Brent contract and Brent NX contract months;

- Any EFM 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.B. 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.

5. Procedures for the reporting of EFM trades to the Exchange

a) Reporting time limits

Reporting of EFM trades may take place at any time for all Source Contracts during trading hours and for 30 minutes after the close of the relevant individual Contract (or the close of the ICE Post Trade and Clearing Systems ("the ICE Systems") whatever is the earlier).

On an expiry day for Destination Contracts, EFMs in respect of the expiring contract date/month may be reported up to one hour after the expiry of the contract date/month.

On the expiry day for Destination Options Contracts, EFMs may be reported up to the end of the designated settlement period of the underlying Destination Futures contract. Further details are set out in Rule F.5.B.

b) Reporting to the Exchange

Once an EFM has been organised the Members must report the EFM details to the Exchange in accordance with Rule F.5.B.

EFMs may be reported to the Exchange by the entry of the EFM details to the ICE Block facility, by notification by the Member to the ICE Helpdesk, or by any other method the Exchange may advise members of from time to time.

- Members may post an EFM by entering into ICEBlock both the buy and sell sides of the trade as a cross trade.

- Where the EFM is agreed between two separate Members ("Non-crossed Trade") one of the Members party to a Non-crossed Trade inputs into ICEBlock its own side of the deal (i.e. either the buy or sell side of the trade) alleging the counterparty Member to the deal. The counterparty Member to the deal is required to accept the alleged Non-crossed Trade in ICEBlock. Once the Non-crossed Trade has been accepted by the counterparty it flows through to the ICE Systems in the normal manner.

In order to facilitate the swift matching of Non-crossed Trades the submitting Member must complete mandatory Order Reference and Contact Number fields to assist any queries prior to acceptance by the counterparty Member.

Unless otherwise agreed by the relevant Members, Non-crossed Trades shall be entered by the buying Member in respect of Non-crossed Trades in single contract months. All legs pertaining to multi-legged strategy trades should be entered into ICEBlock by the Buyer of the front month.

ICEBlock assigns each new trade a unique deal ID and provides an audit of all actions undertaken on ICEBlock for that particular day.

c) Restrictions

- EFMs may only be reported to the Exchange by ICE Futures Europe Members who have been permitted access to ICE Block as appropriate. Where more than one Exchange Member is involved in the arrangement, execution and subsequent clearing of an EFM, each Member must ensure that the business conducted by it or through it shall not cause it or the Exchange to be in breach of any applicable laws and/or regulations.

- Members are reminded of their responsibility under Rule A.9 for the conduct of their Member Representatives if authorising third parties to use ICE Block in such Member's name.

d) Registration and Confirmation

- Subject to the details of the EFM being within relevant clearing risk limits, the transaction details will flow through to the ICE Systems for registration and clearing. The process will not continue if there are any issues with limits; in that event the issue will be highlighted to the affected party, such affected party will need to contact the relevant Clearing Member to remedy the issue.

- The Exchange may check the validity of the EFM details submitted by the parties to the trade. If the Exchange (following consultation, where necessary, with ICE Clear Europe and subject to their right to refuse registration) is not satisfied that all such details are valid, it will void the EFM. Any decision by the Exchange not to register an EFM is final. Registration 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.

- The EFM volume, but not price, will be broadcast to the Market via the ICE Platform.

- An EFM is registered with a trade type of **"EFM" – Exchange of Futures for (Related) Market**.

- EFM Transactions entered through ICE Block will be subject to such fees and charges, as may be notified by the Exchange from time to time.

e) Registration by ICE Clear Europe

- During the consultation (where applicable) between the Exchange and ICE Clear Europe referred to in 'Registration and Confirmation' above, ICE Clear Europe will risk assess the EFM and where insufficient funds are held, may call for additional margin from the Clearing Member.

Further details in relation to the EFM, EFM or ICE Block facility may be obtained from ICE Futures Europe Market Supervision on +44 (0) 20 7382 8200.

Any questions arising from this Guidance should be addressed to:

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