

EXCHANGE NOTICE

August 28, 2015

GUIDANCE ON EFP, EFS, and EOO

The Regulatory Division of ICE Futures Canada (“IFCA”) is issuing this notice to provide guidance in certain areas of Exchange of Futures for Physical (“EFP”), Exchange of Futures for Swap (“EFS”) and Exchange of Options for Options (“EOO”) transactions. These are often collectively known as Exchanges For Related Positions (“EFRPs”).

IFCA Rules require that all EFRPs be connected to an underlying transaction; either a physical grain transaction (EFP), or a risk transaction (EFS/EOO).

Rule 8C.03(b) states that EFPs “...*must include a bona fide underlying cash transaction*”, and that “*EFPs in which the cash transaction is immediately offset, cancelled, or otherwise does not incorporate risk, are prohibited.*”

Rule 8C.04(a) states that EFSs/EOOs are not permitted if the risk transactions “...*cannot be hedged against the underlying futures or options contract.*”

In certain circumstances, an EFRP may be transacted based on the known parameters of the underlying transaction at the time, but subsequently the underlying transaction is changed in a way that would no longer fully support the EFRP. In these circumstances, **it is not permissible to conduct a “correcting” or “reversal” EFRP to reduce the amount originally done via EFRP.** Such an EFRP is not supported by an underlying physical or risk transaction.

For example, a physical grain transaction may have a loading tolerance (eg: +/- 10%), for which the full tonnage is priced via EFP. If less than the full tonnage is subsequently loaded, it is not permissible for the counterparties to conduct an EFP in the opposite direction, to account for the lower tonnage. Instead, the counterparties must either trade these positions competitively in the open market, cash-settle the difference between themselves, or otherwise resolve the under-shipment outside of the EFP structure.

Questions may be directed to the Regulatory Division: compliance-canada@theice.com

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