



OTC Advisory
07/12/001

July 5, 2012

Category:

Regulatory

Referenced Information:

[IPL Circuit Breaker Overview](#)

Summary of content:

Interval Price Limit
Functionality

**For more information
please contact:**

ICE Helpdesk
(770) 738-21-1
icehelpdesk@theice.com

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ICE OTC Markets – Implementation of Interval Price Limit Functionality for Henry Hub LD1 Swap Contract

Effective July 13, 2012, the Exchange will introduce new circuit breaker functionality called Interval Price Limits for the Henry Hub LD1 Swap (“Henry Hub”) and lower the existing Reasonability Limit from \$1.000 to \$0.250. At this time the IPL functionality will only be implemented in the front three contract months, however, when triggered, market holds will apply to all contract months.

Interval Price Limits (“IPL”)

IPL functionality will protect the market from price spikes caused not only by cascading stops but also multiple limit or market orders moving the market in one direction. When an IPL hold is triggered, market prices will not be allowed to move up or down more than a pre-determined amount (“IPL Amount”) from the current market price (reference price or anchor price) within a pre-determined period (“the Recalculation Period”). At the end of the Recalculation Period, new upper and lower IPL Amounts will be calculated from the current anchor price (most recent trade price or most recent trade price in one contract month and the current spread differential in the other contract month).

In the event that an IPL is triggered in one of the front three contract months, ALL Henry Hub contract months will go into a hold state. The Exchange will continue processing incoming orders while preventing further price movements beyond each contract month’s individual IPL for a set period of time (“IPL Hold Period”). While it is designed to be in force throughout each trading day, it is expected that the protections will be actively triggered only in the case of extreme price moves over very short periods of time. The IPL regime uses three customizable parameters:

1. **IPL Amount:** The maximum number of points that a contract month is permitted to move up or down during each IPL Recalculation Time. The anchor price plus/minus the IPL Amount effectively creates an IPL range for the contract for the IPL Recalculation Time.
2. **IPL Recalculation Time:** The frequency in which new upper and lower IPL amounts are recalculated. The IPL Recalculation Time continuously resets for the applicable length of time.
3. **IPL Hold Period:** The length of time in seconds that the market will be in a hold state when an IPL breach occurs. The length of the Hold Period is pre-set and when triggered, the platform will issue an alert to notify users that a Hold Period has begun and specifying the time the Hold Period will end.

The parameters may be adjusted over time based upon market conditions and are listed below. Please note that at the onset of IPL implementation, the Exchange will have expanded parameters to allow for the expected increase in volatility on days that the U.S. Energy Information Administration releases its "Weekly Natural Gas Storage Report". The standard release day of the week is Thursday (at 10:30 a.m. EST), except for 11/22/2012 (Thanksgiving) and 12/25/2012 (Christmas) when the release will happen on 11/21/2012 and 12/28/2012, respectively.

	Regular Trading Day	EIA Day
Recalculation Time	3 seconds	3 seconds
IPL Amount	\$0.100	\$0.120
IPL Hold Period	5 seconds	5 seconds

Example: Henry Hub regular trading day IPL of \$0.100.

Example Anchor Prices
Jul12 (front month) \$3.000
Aug12 (2nd deferred month) \$3.100
Sep12 (3rd deferred month) \$3.200
Oct12 \$3.300
Nov12 \$3.400

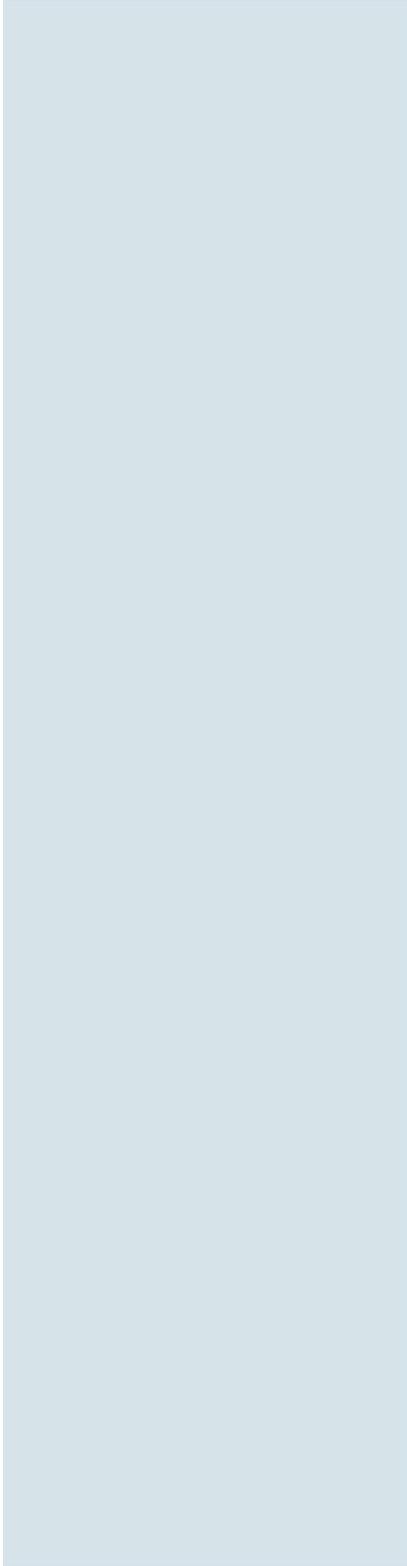
Jul12 has an upper IPL of \$3.100 and lower IPL of \$2.900 and there are resting bids in the market for 31 @ \$2.950, 62 @ \$2.900 and 31 @ \$2.850. A seller places a market order for 120 lots. Trades will occur at \$2.950 and \$2.900. The attempted trade at \$2.850 will be rejected and an IPL Hold will be issued. All markets will continue to trade as normal except for trades occurring outside the IPL as listed below:

Example IPL Range
Jul12: \$2.900 to \$3.100
Aug12: \$3.000 to \$3.200
Sep12: \$3.100 to \$3.300
Oct12: \$3.200 to \$3.400
Nov12: \$3.300 to \$3.500

Using the same anchor prices above and assuming the Jul12 contract is the front month, there are resting offers in the Oct12 market of 30 @ \$3.350, 30 @ \$3.400, and 30 @ \$3.450. A 120 lot buy stop gets triggered. Trades will occur at \$3.350, \$3.400 and \$3.450 without triggering an IPL Hold because Oct12 is outside of the front three contract months.

Reasonability Limit ("RL")

RLs are primarily designed to prevent "fat finger" errors. These are hard limits above or below an Exchange set anchor price. Offers above and bids below a RL are accepted but not tradable unless the market moves to bring them within the RL. Bids above or offers below the RL will not be accepted, unless the orders can



match opposite resting orders at prices within the RL.

Participant Feedback and Questions

Participants should address general questions about Interval Price Limits or Reasonability Limits to the [ICE Helpdesk](#).