

## Policy - Price Adjustment and Trade Cancellation

### 1. Determinants of the Price Adjustment and Trade Cancellation Policy

ICE Endex Markets B.V. (“the Exchange”) applies the following policy in relation to Appendix C - Price Adjustment and Trade Cancellation of the Exchange’s Rules (“Rulebook”) available [here](#). The Exchange considers the main determinants of its Price Adjustment and Trade Cancellation Policy to be:

- a) While wholly accepting that trades executed substantially away from the prevailing Market price may damage user’s confidence in the Market, the Exchange also considers it essential to the integrity of the Market that transactions, once executed, will stand and not be adjusted or cancelled arbitrarily.
- b) The Exchange is also mindful that trades, once executed, may trigger further trades and the subsequent adjustment or cancellation of the trigger may cause confusion and loss to other Market users who have acted in good faith.
- c) It is critical that decisions as to the validity of trades are made by the Market Supervision Department (“Market Supervision”) within narrow time frames and that the decision is communicated to the market without undue delay.

It should be noted that the Exchange has the unilateral right to cancel or adjust the price of any trade (as defined in the Rulebook) under investigation, which is clearly unrepresentative, including in instances where there has been no request from a market participant.

The trade adjust facility will be the preferred method to resolve instances whereby transactions have taken place at an unrepresentative price. Trades reported to, or placed under investigation by the Exchange within a designated time period since execution (see Appendix C), that are more than three times the No Cancellation Range from market value<sup>i</sup>, will be subject to a preferred automatic cancellation. Trades reported, or placed under investigation outside of this time period will be subject to a preferred price adjustment as a method of dispute resolution.

The Exchange reserves the right to consider all trade investigations on their individual merits. In doing so it shall endeavour to ensure that the policy set out is adhered to, but reserves the right to amend this policy in consideration of the circumstances of each individual case in the interest of maintaining a fair and orderly Market.

The decision of the Exchange will be final.

### 2. Exchange Controls

The Exchange considers that systems and controls are important in reducing the likelihood of orders entered in error, preventing the execution of trades at unrepresentative prices and reducing the Market impact of such trades. The Exchange considers that such systems and controls ideally should be present at both Exchange level (on the ICE Platform itself and within the Exchange Regulations) and at Member level. The Exchange considers that many of these systems and controls already exist at the Exchange level.

These include:

- a) ICE Platform configuration facilities:
  - i. price reasonability limits, set by the Exchange, which prevent the execution of trades outside the upper level of these limits;
  - ii. volume reasonability limits, set by the Exchange, which prevent volumes above a certain level to be either designated for trading or traded;
  - iii. optional pre-confirmation messages which appear before the execution of all trades; and
  - iv. an option to designate the quantity that a user may wish to trade rather than trading the total quantity that is available to be traded at a specified price.
- b) The Regulations which provide the Exchange with an absolute discretion to delete orders, adjust trade prices, cancel trades or suspend the Market in the interests of maintaining a fair and orderly Market.
- c) The Regulations which require adequate systems and controls at Member level.

The Exchange considers it to be prudent to articulate fully guidance related to:

1. Preventing execution of trades at unrepresentative prices.
2. Any policies and procedures for the price adjustment or cancellation of trades. This includes clear guidance on criteria for price adjustment or trade cancellation and establishing proposed time limits for the identification, investigation and resolution of trade disputes.

### 3. Defined No Cancellation Range

A component of Market integrity is the assurance that once executed, except in exceptional circumstances, a trade will stand and not be subject to adjustment or cancellation. Any trades that do not have an adverse effect on the Market should be allowed to stand, even if executed in error.

The Exchange determines parameters above or below an Exchange set anchor price for each Contract within which a disputed trade will stand. Such parameters are known as 'no cancellation ranges' ("**NCR**")

If a trade takes place within the NCR and is disputed by a market participant, the trade will stand, subject to the "Implied Prices" section below.

The Exchange retains the right to double the NCR for any future or option contract during the trading day and in such cases a notification will be broadcast to the market accordingly.

The applicable NCR's for each product of the Exchange are available [here](#).

#### 4. Price Reasonability Limits

The ICE Platform incorporates a price reasonability limit (“RL”) to prevent ‘fat finger’ type errors and is the amount the price may change in one trading sequence from the anchor price. These limits are set by the Exchange and may be varied without notice according to Market conditions. Beyond these limits, the ICE Platform will not execute limit or Market orders unless the Market moves to bring them within the reasonability limit.

Any trade executed at a price within this price reasonability limit but outside of the NCR for that Contract, if notified to the Exchange within the designated time period, shall be investigated by Market Supervision.

The price reasonability limits for each Contract will necessarily be flexible to take account of prevailing market conditions. It remains at the discretion of the Exchange to determine when such conditions apply.

The applicable RL’s for each product of the Exchange are available [here](#).

#### 5. Implied Prices

The Exchange’s trading platform incorporates mechanisms which imply prices from orders in outright, spread and composite contracts. It is possible for trades to occur which involve a combination of legs, some of which may be inside the NCR whilst others fall outside of it.

Where possible, the Exchange will apply the preferred price adjustment approach to resolve trades which occur under these circumstances. However, scenarios can occur whereby it is not practicable for the Exchange to adjust all legs in a manner that satisfies each and every leg’s NCR. In such scenarios, the Exchange will apply the preferred “price adjustment” approach to the legs falling outside the NCR leading to a new implied price which may be inside or fall outside the NCR.

The Exchange will consider any such scenario on its individual merits in the interests of maintaining a fair and orderly market; however, it is possible in such a scenario that individual legs which ordinarily fall within the NCR are subject to cancellation; conversely, trades ordinarily falling outside of the NCR might not be cancelled.

The general criteria that apply for validating a request for trade cancellation and price adjustment are listed in Appendix C - Price Adjustment and Trade Cancellation in the Rulebook available [here](#). The applicable NCR’s for each product of the Exchange are available [here](#).

#### 6. Option Trades

Under normal circumstances, the Exchange will only adjust or cancel Option trades on the basis that the price traded is not representative of the market value.

The NCR for an option is defined by the Exchange as a % of the theoretical value, with an absolute maximum and minimum value set per product. In the case of Conversion Trades, the NCR is pre-determined and equal to the minimum NCR set per product.

The applicable ranges can be found [here](#).

Option trades executed outside of this range will not necessarily be cancelled but will be subject to review by the Exchange.

The preferred approach for Option trades is a price adjustment, as long as the trade price does not exceed 3 times the NCR from theoretical value<sup>ii</sup>. Options trades, excluding Conversions and Reversals as well as User Defined Strategies (UDS), executed at a price greater than 3 times the NCR from theoretical value<sup>i</sup> will be subject to trade cancellation.

A Conversion Trade is defined as a risk neutral strategy whereby the trader buys the underlying future, buys a put and writes a call on a 100 delta, with identical strike prices and expiration dates. For clarity, this also incorporates a Reverse Conversion Trade, which is where the trader sells the underlying future, buys a call, sells a put on a 100 delta with identical strike prices and expiration dates, and is again a risk neutral strategy. Conversion and Reversal Trade executed at a price greater than 3 times the NCR from theoretical value<sup>i</sup> will be evaluated on a case per case basis.

User Defined Strategies (UDS) will be evaluated on the basis of the strategy unless there are implied deals in which case each leg of the UDS will be evaluated independently.

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<sup>i</sup> A trade executed 3 times the NCR, from respectively market value for a future contract and theoretical value for an option contract, is a trading bandwidth defined as 3 times the NCR +/- the market value or theoretical value, whichever is applicable depending of the contract type.

<sup>ii</sup> Theoretical value is a mathematical value calculated based on an option pricing model used by ICE.