

BENCHMARK STATEMENT - ICE SWAP RATE

1. Introduction

ICE Benchmark Administration Limited (IBA) is the Benchmark Administrator for four systemically important benchmarks:

- ICE LIBOR – the world's most widely used benchmark for short term bank borrowing rates
- ICE Swap Rate – the global interest rate swap benchmark for swap rates and spreads
- LBMA Gold Price – the principal global benchmark for daily spot gold prices, and
- LBMA Silver Price – the principal global benchmark for daily spot silver prices.

This Benchmark Statement is published by IBA in compliance with Article 27 of the European Benchmarks Regulation (BMR).

The BMR regulates the provision of, contribution to and use of benchmarks. Recital (6) of the BMR sets out its overarching purpose:

“[...] in order to ensure the proper functioning of the internal market and improve the conditions of its functioning, in particular with regard to financial markets, and to ensure a high level of consumer and investor protection, it is appropriate to lay down a regulatory framework for benchmarks at Union level.”

Regulatory technical standards (RTS) complement the BMR and specify the contents of the benchmark statement.

2. About ICE Swap Rate

ICE Swap Rate is recognised as the principal global benchmark for swap rates and spreads for interest rate swaps. It represents the mid-price for interest rate swaps (the fixed leg), at particular times of the day, in three major currencies (EUR, GBP and USD) and in tenors ranging from 1 year to 30 years.

ICE Swap Rate is used as the exercise value for cash-settled swaptions, for close-out payments on early terminations of interest rate swaps, for some floating rate bonds and for valuing portfolios of interest rate swaps, among others. ICE Swap Rate is calculated by working out the theoretical mid-price to fill a trade of Standard Market Size (SMS) using the best prices available on relevant regulated electronic trading venues at the specified times and in the specified currencies and tenors.

IBA transitioned the benchmark methodology in March 2015 from being a polled rate to one based on tradable quotes sourced from regulated electronic trading venues which are Multilateral Trading Facilities (MTFs) regulated by the FCA and Swap Execution Facilities regulated by the US Commodity Futures Trading Commission (CFTC).

In summary, the current methodology uses:

- Non-discretionary firm tradeable quotes from MTFs or SEFs ('outright' prices).
- Additional tradeable quotes that are 'implied' from other tradeable outright prices on the venues. These are firm tradeable quotes that exist on the platform and represent additional liquidity in the underlying market in less traded tenors.
- Since all the quotes are offered on a cleared basis, where the quotes are subject to clearing through multiple clearing houses, the global or domestic clearing house which has the largest dealer liquidity in related swaps is used.

ICE Swap Rate is based on multiple snapshots randomly selected; this methodology is designed to make the benchmark robust not only against attempted manipulation but also when there are momentary price aberrations in the market.

Other key features of the methodology are:

- Volume Weighted Average Mid Prices (VWAMP) from Synthetic Order Books are used which acts as a protection against attempted manipulation.
- Liquidity Checks exclude illiquid snapshots from the calculation; the benchmark is therefore based only on VWAMPs from reasonably sized volume.
- Outlier Checks provide additional protection against momentary and unrepresentative spikes in price. The snapshots that pass the liquidity checks are ranked in order of their VWAMPs and the snapshots higher than the 75th percentile and lower than the 25th percentile are discarded leaving only the most representative snapshots.
- Since the synthetic order book created for ICE Swap Rate takes prices from multiple trading venues, it is possible to have bid prices in the order book that are higher than the offer prices. A crossed order book should only exist momentarily, since the underlying market would quickly correct itself, and it would not be truly representative of the market during the data collection window. The ICE Swap Rate calculation therefore excludes any crossed order books before discarding the outlier snapshots.
- To ensure that each published tenor is based on data spanning at least one quarter of the snapshots, at least 6 snapshots must remain after the liquidity and crossed order book checks.
- Quality checks ensure that Volume Weighted Average Mid Prices that are produced from bids and offers that sit closer together (at a tighter spread) are given a higher weighting as they are indicative of a better quality market.

- Movement interpolation was introduced into the ISR methodology in November 2017 and is applied, subject to the conditions set out below, to address days when liquidity is missing in a small number of tenors but present in neighbouring tenors. With movement interpolation, IBA seeks to calculate 'missing' tenors using the day-on-day move in adjacent tenors and the previous day's rate for the tenor, provided that:
 - there are fewer than 6 valid snapshots (and not all 24 of the snapshots are crossed order books)
 - the gap between the target tenor and the neighbouring tenors is only one year on each side
 - both the neighbouring tenors are not themselves interpolated, and
 - the previous day's publication for the target tenor was not interpolated.

3. **Applicable BMR requirements**

IBA expects that ICE Swap Rate will be designated as a Critical benchmark pursuant to Article 3(1)(25) of the BMR and, as such, an enhanced regulatory regime is applicable.

The following is a summary of the applicable BMR requirements for Critical benchmarks:

- Article 7 (Accountability framework requirements):

The administrator of a Critical benchmark must appoint an independent external auditor to review and report at least annually on the administrator's compliance with the benchmark methodology and the BMR.

- Article 15 (Code of Conduct):

The administrator of a Critical benchmark must notify a code of conduct to the relevant competent authority where the benchmark is based on input data from contributors.

ICE Swap Rate is not based on input data from contributors and accordingly Article 15 is not applicable.

- Article 20 (Critical benchmarks):

Article 20 states that the European Commission will review at least every two years the list of Critical benchmarks.

- Article 21 (Mandatory administration of a critical benchmark):

Under the BMR, the FCA could compel IBA to continue to publish the benchmark for a period not exceeding 24 months.

- Article 22 (Mitigation of market power of critical benchmark administrators):

Administrators of Critical benchmarks must ensure that licences of, and information relating to, the benchmark are provided to all users on a fair, reasonable, transparent and non-discriminatory basis.

- Article 23 (Mandatory contribution to a critical benchmark):

This Article applies to critical benchmarks based on submissions by contributors the majority of which are supervised entities. A 'contributor' is defined in the BMR as a natural or legal person 'contributing input data' which in turn means providing any input data not readily available to an administrator, or to another person for the purposes of passing to an administrator, that is required in connection with the determination of a benchmark, and is provided for that purpose.

Since ICE Swap Rate does not have 'contributors', Article 23 does not apply.

- Independent oversight committee:

IBA has an independent Oversight Committee with an independent chairman and publicly available minutes, membership and terms of reference. The composition of the Oversight Committee is published by IBA, along with any declarations of any conflict of interest, at:

https://www.theice.com/publicdocs/ICE_Swap_Rate_Oversight_Composition.pdf.

IBA's processes for the election or nomination of Committee members is published at:

https://www.theice.com/publicdocs/IBA_Selection_of_Committee_Members.pdf.

The ICE Swap Rate Oversight Committee holds a meeting at least every four months. Public minutes of the Committee's meetings are published at:

<https://www.theice.com/iba/ice-swap-rate>.

The role of the ICE Swap Rate Oversight Committee is to:

- Assess, and where appropriate challenge, the decisions of IBA with regards to the provision of the ICE Swap Rate benchmark
- Address all recommendations on benchmark oversight to the IBA Board, and
- Record in its meeting minutes if the committee becomes aware that the IBA Board has acted or intends to act contrary to any recommendations resulting from a decision of the committee.

The terms of reference are published at:

https://www.theice.com/publicdocs/ICE_Swap_Rate_Oversight_Committee_Terms_of_Reference.pdf

- Independent external audit

Independent external audits of IBA's compliance with the benchmark methodology for ICE Swap Rate and with the BMR will be carried out annually.

- Expert Judgement

In order to provide information on the controls and rules that govern any exercise of judgement or discretion in the calculation of a benchmark, the BMR RTS state that the Benchmark Statement must contain certain information.

No expert judgement is exercised by IBA in the calculation of ICE Swap Rate.

4. Publication timings

The current benchmark runs for ICE Swap Rate are:

Benchmark Run	Base Time Zone	Data Collection	Publication	Publication (GMT equivalent)
EUR Rates 1100	Frankfurt	10:58-11:00	11:15	10:15
EUR Rates 1200	Frankfurt	11:58-12:00	12:15	11:15
GBP Rates 1100	London	10:58-11:00	11:15	11:15
USD Rates 1100	New York	10:58-11:00	11:15	16:15
USD Spreads 1100	New York	10:58-11:00	11:15	16:15
USD Rates 1500	New York	14:58-15:00	15:15	20:15

The tenors for each benchmark run are:

Tenor	EUR Rates 1100	EUR Rates 1200	GBP Rates 1100	USD Rates 1100	USD Spreads 1100	USD Rates 1500
1 Year	○	○	○	○		○
2 Years	○	○	○	○	○	
3 Years	○	○	○	○	○	

Tenor	EUR Rates 1100	EUR Rates 1200	GBP Rates 1100	USD Rates 1100	USD Spreads 1100	USD Rates 1500
4 Years	○	○	○	○		
5 Years	○	○	○	○	○	
6 Years	○	○	○	○		
7 Years	○	○	○	○	○	
8 Years	○	○	○	○		
9 Years	○	○	○	○		
10 Years	○	○	○	○	○	
12 Years	○	○	○			
15 Years	○	○	○	○		
20 Years	○	○	○	○		
25 Years	○	○	○			
30 Years	○	○	○	○		

The day count and interest rate basis of each benchmark run are published at:

<https://www.theice.com/iba/ice-swap-rate>

IBA has a Republication Policy for ICE Swap Rate which is designed to address whether (and if so, in which situations) it would be appropriate for IBA to republish the ICE Swap Rate benchmark if, after publication, an error were discovered in the input data or in the calculation for a particular benchmark run.

A republication would cause significant market disruption and therefore the balance of considerations indicates that IBA should not republish the ICE Swap Rate benchmark. However, it is important for users of ICE Swap Rate to know the accuracy of the benchmark, to allow them to assess the suitability of the benchmark for their uses; IBA publishes on a quarterly basis whether any errors have occurred.

The Policy, which includes transparency of any errors, is published at:

https://www.theice.com/publicdocs/ICE_Swap_Rate_Republication_Policy.pdf.

5. Changes to, or the cessation of, the benchmark

The BMR RTS also state that the Benchmark Statement must provide information on the review of the methodology and on advising users of changes to, or the cessation of, the benchmark, as follows:

(a) *Procedures for public consultation on any material changes to the benchmark methodology*

IBA typically designs evolutionary enhancements to benchmarks and it is important for IBA to gain feedback on proposed changes where they are material to the benchmark.

IBA therefore consults publicly from time to time on proposed material changes in relation to IBA benchmarks.

IBA's Consultation Policy outlines the considerations that inform public consultations and the steps that IBA takes when seeking feedback on material proposals.

The Consultation Policy is published at:

https://www.theice.com/publicdocs/IBA_consultation_process.pdf

(b) *Changes to, or cessation of, the benchmark*

The BMR requires an administrator to include in the Benchmark Statement, to the extent known, how changes to (or the cessation of) the benchmark may have an impact on the financial contracts, financial instruments that reference the benchmark or on the measurement of the performance of investment funds.

The steps in the Consultation Policy would be followed if IBA proposed to make a material change to ICE Swap Rate or to cease producing the benchmark. A cessation of the benchmark might be because IBA was not able to continue to produce the benchmark or because there was a fundamental change in the underlying interest that the benchmark seeks to represent.

The factors that would be considered in the context of the cessation of a benchmark are as follows:

- The timing of cessation
- How much notice should be given
- Whether any transitional measures should or could be implemented
- Stakeholder engagement, and
- Identification of possible alternative benchmarks and migration thereto.

If cessation of ICE Swap Rate were under consideration, IBA would engage closely with the relevant stakeholders, including:

- The FCA and any other relevant regulatory body
- Users of the benchmark – directly (for example, by email to registered licensees and by conference calls, where appropriate), through any relevant association(s) and/or through paid advertisements
- The trading venues from which IBA sources data for ICE Swap Rate

- Redistributors of the benchmark, and
- The media.

IBA would also include relevant information and relevant contact details on its website.

IBA's BMR Changes and Cessation Procedure for ICE Swap Rate is published at:

https://www.theice.com/publicdocs/ICE_Swap_Rate_Changes_and_Cessation_Procedure.pdf

6. Potential limitations of a benchmark

The BMR RTS require that, for the purpose of defining the potential limitations of a benchmark, the Benchmark Statement refer to circumstances in which the measurement of the relevant market or economic reality may become unreliable.

Where the liquidity of the underlying market becomes insufficient to ensure the integrity and reliability of the benchmark determination, IBA would lack sufficient input data to determine the ICE Swap Rate benchmark.

In the period since March 2015 when the current methodology for ICE Swap Rate was introduced, there have been instances when the requisite liquidity was not available in the electronic venue platforms, leading to a No Publication for a particular tenor/s, mostly in tenors with limited or lower usage.

Three broad categories of No Publications were identified by IBA. The most common category involves days when liquidity in a small number of tenors is missing. This was the focus of a public consultation in 2017 in which IBA invited views on whether a calculation using movement interpolation should be added to the existing methodology when there is not enough volume from the trading venues for IBA to calculate a rate for a particular tenor on a particular day.

Following the consultation, IBA now includes movement interpolation within the benchmark methodology. The other two categories refer to days when low liquidity for certain runs can be anticipated due to their proximity to holidays and also to days when liquidity is unexpectedly withdrawn across the whole curve due to exceptional market events or major news releases.

7. Review and updates

This Benchmark Statement is subject to review by the ICE Swap Rate Oversight Committee at least annually.

It will additionally be reviewed and updated if the information it provides is no longer correct or sufficiently precise, including if there is a material change in the methodology for determining the benchmark.

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