



GUIDANCE
ICE Futures Europe Trade Cancellation
and Adjustment Policy

April 2012

Guidance - ICE Futures Europe Policy on Trade Cancellation and Adjustment (“Trade Cancellation and Adjustment Policy”)

Determinants of the Trade Cancellation and Adjustment Policy

ICE Futures Europe (“the Exchange”) considers the main determinants of its Trade Cancellation and Adjustment 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 ICE Futures Europe 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 which is clearly unrepresentative, including in instances where there has been no request from a market participant. 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 and may amend this policy in light 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.

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.

Trade Investigations

Commencement of Investigation

- a) Market Supervision may, in its absolute discretion, investigate a trade where:
 - i. a market participant (who may or may not be party to the trade) disputes the price of a trade and has notified the dispute to market supervision within 8 minutes from the time of the original trade; or
 - ii. Market Supervision determines that a trade may have been made at an unrepresentative price and where no notification has been received from a market participant.
- b) Market Supervision will notify the Market immediately, via the WebICE broadcast message, that a trade is under investigation; that a trade has been cancelled or the price of a trade has been adjusted, giving details of the trade including contract month, price and volume.
- c) The Exchange shall not investigate a trade when a dispute has been notified in respect of the volume only. In such an event, the trade may be referred to the Compliance Department, which may make further enquiries as to the validity of the trade.
- d) There is a defined no-cancellation range. Trades executed within this price range will not, under normal circumstances, be adjusted or cancelled
- e) Trades executed within the price reasonability limit but outside the defined No Cancellation Range may be reported to Market Supervision and investigated in accordance with the Regulations.

Final Determination by Market Supervision

- a) Where Market Supervision has made the decision that the trade being investigated, or any such consequential trades, were executed at an unrepresentative price, it may, in its absolute discretion:
 - i. adjust the price of the trade under investigation and consequential trades to a price that Market Supervision evaluates as fair market value at the time of execution, plus or minus the No Cancellation Range for that Contract (available for all ICE Futures Europe Options and Inter Product spread markets. Transactions only).
 - ii. cancel the trade under investigation and any such consequential trades; or
 - iii. let the trade under investigation and any such consequential trades stand
- b) In the event that there are a significant number of counterparties, transactions or contracts associated with the trade being investigated, or any other factor deemed relevant by the Exchange, Market Supervision has the authority to allow trades to stand or cancel trades rather than adjust prices. The decision of Market Supervision is final.
- c) The Exchange will make every attempt to ensure that a decision on whether the price of a trade under investigation will be adjusted; the trade will be cancelled; or will stand, be notified to the parties involved in the trade(s), and to the Market, as soon as reasonably possible after the time of the original trade.
- d) Operationally, if the price of a trade is adjusted, the original trade will be cancelled and a new one will be created. All information pertaining to the original trade is retained except for a new deal id, trade price and reference to the cancelled trade. Any consequential trades which have the price adjusted will also have a new trade created with the original trade cancelled.
- e) All post trade administrative actions, such as claims and allocations, will need to be completed as normal on any trade that has been subject to a price adjustment.
- f) Any trade, which is under investigation and the price of which is subsequently adjusted or the trade is cancelled due to the determination that it has been executed at an unrepresentative price, may be investigated by the Exchange.
- g) Members are advised that any trade, whether adjusted, cancelled or allowed to stand, may be the subject of further investigation and possible disciplinary action if the Exchange suspects the trade was conducted for an improper purpose or otherwise in breach of the Regulations.

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 a 'no cancellation range'.

The anchor price is set by the Exchange and is based on the front contract month. The price may be the previous night's settlement price, the opening call or the last traded price. The anchor price of the second contract months onwards is achieved by applying spread differentials against the front month anchor price.

If a trade takes place within the no cancellation range and is disputed by a market participant, the trade will stand.

Price Reasonability Limits

The ICE Platform incorporates a price reasonability limit 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 necessarily will be flexible to take account of prevailing market conditions. It remains at the discretion of the Exchange to determine when such conditions apply. The Exchange reserves its right to consider each trade under investigation on its individual merits and may therefore amend these price reasonability limits in light of the circumstances of each individual case and prevailing Market conditions.

Factors considered when investigating a trade

A swift resolution is paramount when investigating a trade. This preserves Market integrity and limits the possibility of consequential trades executed as a direct result of a trade executed at an unrepresentative price.

In determining whether a trade has taken place at an unrepresentative price, certain factors will be taken into account. They may include, but not be limited to:

- ? price movement in other delivery months of the same contract;
- ? current market conditions, including levels of activity and volatility;
- ? time period between different quotes and between quoted and traded prices;
- ? information regarding price movement in related contracts, the release of economic data or other relevant news just before or during electronic trading hours;
- ? manifest error;
- ? whether there is any indication that the trade in question triggered stops or resulted in the execution of spread trades;
- ? whether another Market user or client relied on the price;
- ? any other factor which the Exchange, at its sole discretion, may deem relevant.

The Exchange will not disclose to the counterparties to the trade under investigation the identity of their counterparty. The identities of the counterparties to the trade will not be disclosed to any Market practitioner it may consult with. The Exchange believes that the identity of the counterparties to such trade should not affect the determination of whether a price is representative of Market value or not.

Consequential Trades

One of the factors taken into consideration by the Exchange will be whether the trade under investigation triggered contingent orders or resulted in the execution of spread trades or whether another Market user or client relied on the price to execute consequential trades.

When resolving a situation involving consequential trades, the Exchange will consider these on a case by case basis, evaluating each situation on its individual circumstances and merits. When considering its approach, the Exchange will consider those consequential trades directly related to the trade under investigation and consider reasonably any trades (specifically spread trades) which have been derived from the trade itself and those executed as a result of it.

In circumstances where trades are executed as a consequence of the trade under investigation after Market Supervision has notified the Market of such trade, should the trade subsequently be adjusted or cancelled, these consequential trades will not be cancelled.

Option Trades

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

The Exchange determines parameters above or below an Exchange set Theoretical Value for each Contract, which is referred to as the 'No Cancellation Range' or 'NCR', and all trades executed within this range will not be cancelled by the Exchange.

The NCR for an option is defined by the Exchange as follows;

% of Theoretical Value up to a maximum % of the underlying Futures NCR with a minimum absolute value relative to each Product

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

The following examples offer guidance as to the determination of an option's NCR and the implementation of the Trade Cancellation and Adjustment Policy;

Example 1

A \$76.00 Oct10 Brent call option trades at \$2.60. The Exchange has the Theoretical Value set at \$2.25.

The NCR for Brent options is currently set at 25% of Theoretical Value up to a maximum of 200% of the Futures underlying NCR (Brent Futures NCR = \$0.50) with a minimum of \$0.10.

In this case the NCR equates to \$0.56 (25% of the Theoretical Value).

Applying \$0.56 to the Theoretical Value of \$2.25 gives an NCR of \$1.69 to \$2.81.

In this example the trade at \$2.60 would not be adjusted or cancelled by the Exchange.

Example 2

An \$89.50 Dec11 Brent put option trades at \$16.00. The Exchange has the Theoretical Value set at \$13.64.

The NCR for Brent options is currently set at 25% of Theoretical Value up to a maximum of 200% of the Futures underlying NCR (Brent Futures NCR = \$0.50) with a minimum of \$0.10.

In this case, 25% of the Theoretical Value is \$3.41, which is greater than 200% of the Futures underlying NCR (Brent Futures NCR = \$0.50).

Applying \$1.00 to the Theoretical Value of \$13.64 gives an NCR of \$12.64 to \$14.64.

In this example the trade at \$16.00 would be subject to review by the Exchange.

ICE Futures Europe Market Supervision – contact with Responsible Individuals/users

There may be occasions during the trading day when Members' clients who are order-routing through WebICE have reason to make direct contact with Market Supervision (+44 (0)20 7382 8200). Whilst the Exchange is pleased to assist all users of the system by providing advice and information, it is not the policy of the Exchange to take any instructions from such clients/users in respect of the removal of quotes or the cancellation of trades.

All such instructions must, without exception, be directed to the Market Supervision via the Responsible Individual or senior management of the Member firm submitting the order. It is the responsibility of Member firms to ensure that they are able to respond to their client's instructions at all times.

Members are also advised that any request for the removal of orders made to Market Supervision by the Responsible Individual or senior management of the Member firm shall always be actioned on a best endeavours basis by the Market Supervision.