GUIDANCE

ICE Futures Europe Block Trades

August 2013

ICE Futures Europe Guidance on the Block Trade facility

This Guidance supersedes previous advice and contains a summary overview of the facility followed by further details. It also sets out the method of reporting Block Trades to the Exchange for registration.

The term "Block Trade" in this document shall include settlement trades, and trades at a premium or discount to the settlement price that meet the Block Trade requirements ("Block TAS Trades").

Members should ensure they have appropriate systems and controls in place to ensure that Block Trades are registered in accordance with Exchange Rule F.7.1 and Trading Procedure 17. Failure to do so may render the Member liable to disciplinary action by the Exchange and potentially the FCA.

1. Summary overview of the Block Trade facility

- The Block Trade facility allows Members to negotiate ICE Futures Europe Contracts bilaterally, without the normal requirement to reveal the order to the Market first, so long as the order meets or exceeds a minimum volume threshold.
- A minimum volume threshold is the minimum number of lots that may be traded as a Block Trade. The level is determined by the Exchange and published from time to time; current levels are set out at point 3(c) below.
- Certain Block Trades not directly supported by the ICE Platform may qualify as complex strategies, and are therefore subject to a lower minimum volume threshold.
- Block Trades must be reported to the Exchange by the method set out in point 3(g) of this Guidance.
- Block Trades must be reported to the Exchange within a specified time of the trade being completed. See tables 1, 2 and 3 below.

2. Block Trade facility – General

The Block Trade facility provides for the arrangement, execution and clearing of high volume trades and complex strategies by Members 'off Exchange' (i.e. not via the ICE Platform), in specific Contracts designated by the Exchange.

In general, Block Trades:

- may be for single Contract months, intra-month spreads, inter-Contract spreads, volatility trades or complex strategies;
- may be for settlement trades and trades at a premium or discount to the settlement prices ("Block TAS Trades") for those Contracts determined by the Exchange from time to time (currently, for those Oil Contracts other than ICE Middle East Sour Crude Futures)
- must meet or exceed minimum volume thresholds, and must comply with trade order aggregation criteria;
- except for Block TAS Trades, must be at a price considered by the parties to the Contract to be a 'fair market value' price - that is, a price considered to be the best available for a trade of that kind and size at that time;
- must be submitted to the Exchange within a specified timeframe from execution (see tables 1, 2 and 3 below);
- are not included in the calculation of any Exchange Index or settlement price;
- in the case of Block TAS Trades for ICE Gasoil Futures, are not permitted on the last day of trading of an expiring contract month;
- are identifiable by a 'K' trade type code except for Block TAS Trades which will use the 'Z' trade type code; and

- will be charged the premium Exchange transaction fee as published at www.theice.com

When using this facility Members must ensure they act with due skill, care and diligence and that the interests of the client(s) are not prejudiced. Members must also be mindful of the FCA's requirements (particularly under the Conduct of Business Sourcebook and the Market Conduct Sourcebook) as well as any fiduciary requirements under law.

3. Block Trade facility – the detail

a) Applicable Contracts

Block Trades may take place in respect of Contracts designated by the Exchange from time to time as Block Trade Contracts.

b) Availability

Block Trades may, pursuant to Rule F.7.1, only be arranged during specific trading hours and on specific ICE Futures Europe Trading Days as notified by the Exchange from time to time. Currently this means normal trading hours and all Trading Days, except that for ICE Gasoil Futures, Block TAS Trades are not permitted on the last day of trading for the expiring contract month.

Block Trades may not be arranged at any other times or after the expiry of the relevant contract month.

c) Minimum volume thresholds

The minimum volume threshold is the minimum number of lots that can be traded as a Block Trade. The level is determined by the Exchange and published from time to time. The levels below are those current from 02 November 2012 (and apply to Block TAS Trades where applicable), and are subject to change by the Exchange.

i) Futures and Options

Members may enter into Block Trades which involve the trading of:

- two or more different Contract months and/or strike prices of the **same** Contract, or
- two or more different Contract months and/or strike prices of two or more **different** Contracts.

Where a Block Trade involves the trading of two or more Contract months and/or strike prices of the **same** Contract, the minimum volume threshold will apply to **each** leg of the Block Trade.

Where a Block Trade involves the trading of two or more **different** Contracts, the applicable minimum volume threshold for all legs will be whichever is the smaller of the Contracts forming the Block Trade. The exception is where specific provision has been made within the published minimum volume thresholds (e.g. for volatility trades and delta hedges, only the minimum volume threshold for the option leg will apply).

An order for a Block Trade for calendar spreads may be matched with Block Trade orders for individual Contract months provided that all orders involved meet or exceed the minimum volume threshold for that Contract.

Orders for individual months or calendar spreads may be combined to facilitate orders for complex strategies, so long as the volume of the complex order meets the minimum volume threshold of the individual month or calendar spread. Members must ensure that combining orders in this way is not to the detriment of any client order.

Table 1: Minimum Volume Thresholds (Futures and Options)

Contract	Minimum volume threshold	Reporting time
Futures		
ICE Brent, Brent NX, MESC, ASCI and ASCI differential	100	5 minutes
ICE WTI	50	5 minutes
ICE Gasoil, ICE LS Gasoil	100	5 minutes
Heating Oil; RBOB Gasoline	25	5 minutes
All utility futures	50	5 minutes
Emissions futures	50	5 minutes
Coal futures	5	15 minutes
Inter-commodity spread contracts (all legs on ICE)	100	5 minutes
ICE Heating Oil : Gasoil Futures spreads	Heating oil leg - 75; Gasoil leg - 100	5 minutes
Futures complex strategies	50	15 minutes
Options		
All ICE Oil Options	25	15 minutes
All ICE Utility Options	25	15 minutes
All ICE Coal Options	5	15 minutes
All ICE Emissions Options	25	15 minutes
Volatility trades	Minimum volume threshold of the applicable Option contract	15 minutes
Options complex strategies	15	15 minutes

ii) Swap Futures and Options

Members may enter into Block Trades which involve the trading of two or more different Contracts or two or more different Contract months and/or strike prices of the same Contract.

i) Intra-Commodity Swap Futures Spreads and Swap Futures Combinations and Intra-Commodity Swap Options Spreads and Options Combinations: these spreads and combination transactions may be executed as Block Trades provided that the sum of the quantities of the legs of the transaction meets the minimum Block quantity threshold requirements for the underlying Swap Future. Coal futures are considered to be swap futures for these purposes.

ii) Inter-Commodity Swap Futures Spreads and Swap Futures Combinations and Inter-Commodity Swap Options Spreads and Swap Options Combinations: These spreads and combination transactions may be executed as Block Trades, provided that the sum of the quantities of the legs of the transaction meets the larger of the threshold requirements for the underlying Swap Futures.

Table 3: S2F Minimum Volume Thresholds

ICE S2F Contracts				
S2F Product Group	**Product name**	**Contract Size**	**Minimum Volume Threshold**	**Reporting Time**
US Crude	All	1,000 bbls	5	15 Minutes
	Mini Products	100 bbls	5	15 Minutes
International Crude	All	1,000 bbls	10	15 Minutes
	All	1 bbl	1,000	15 Minutes
	Mini Products	100 bbls	5	15 Minutes
Gasoline	All	1,000 bbls or 42,000 US glns	10	15 Minutes
	All	1,000 MT	5	15 Minutes
	Mini Products	100 bbls	5	15 Minutes
	Mini Products	100 MT	5	15 minutes
Gasoil/Diesel/Heating Oil	All	1,000 bbls or 42,000 US glns	10	15 Minutes
	All	1,000 MT	5	15 Minutes
	All	100 MT	10	15 Minutes
	Mini Products	100 bbls	5	15 Minutes
	Mini Products	100 MT	5	15 Minutes
Fuel Oil	All	1,000 bbls	10	15 Minutes
	All	1,000 MT	5	15 Minutes
	Mini Products	100 MT	5	15 Minutes
Bio Diesel	All	1,000 MT	5	15 Minutes
Jet	All	1,000 bbls or 42,000 US glns	10	15 Minutes
	All	1,000 MT	5	15 Minutes
	Mini Products	100 bbls or 4,200 US glns	5	15 Minutes
	Mini Products	100 MT	5	15 Minutes
Naptha	All	1,000 bbls	10	15 Minutes
	All	1,000 MT	5	15 Minutes
	Mini Products	100 MT	5	15 Minutes
Freight	Dry Freight	1,000 MT	5	15 Minutes
	Wet Freight	1,000 MT	5	15 Minutes
US NGLs	All	1,000 bbls	10	15 Minutes
	Mini products	100 bbls	5	15 Minutes
International NGLs	All	1,000 MT	2	15 Minutes
Iron Ore	All	1,000 MT	5	15 Minutes
Ethanol	All	1,000 bbls or 42,000 US glns	5	15 Minutes
	All	100 cubic metres	5	15 Minutes
LNG	All	10,000 MMBTU	5	15 Minutes

Mini contracts

Mini Contracts are intended to be used where a hedge, delta-hedge, or other valid commercial requirement calls for the splitting of a full-size lot into tranches smaller than one such lot. For example, a physical position of 8000 bbls, to be priced over 5 days, would require a hedge trade of 1600 bbls per day. It is then a valid strategy to execute a 1 lot screen trade of the standard Contract and 6 lot Block Trade of the mini Contract daily to achieve the required daily hedge. It is also valid to stand as the counterparty to such a trade.

It is *not* a valid use of the block facility to use it to bypass or evade the minimum threshold of the standard size contract by trading a larger number of mini Contracts instead i.e. a 4000 bbls exposure on one day cannot be blocked by a single trade of 40 lots of the equivalent mini, but should be hedged via 4 lots traded on screen in the usual way. The Exchange will make routine inquiries where minis are used and will expect to see a commercial purpose in each case, which may include executing such a hedge, or providing it to another participant, or other commercial purpose.

d) Aggregation of orders in connection with minimum volume thresholds

Members must not aggregate separate client orders in order to meet the minimum volume thresholds. Members may, however, aggregate separate Block Trade orders from the same client to meet the minimum threshold. Members may also aggregate Block orders from different clients provided that each such order individually meets or exceeds the applicable minimum volume.

When arranging a Block Trade and, in particular, when aggregating orders on the matching side to facilitate execution of a Block, Members must ensure that they act with due skill, care and diligence; and that the interests of the client(s) are not prejudiced.

e) Restrictions

If a Member is authorised by the FCA, Block Trades may only be arranged by a person on that Member's staff who is registered with the FCA as an Approved Person.

Where a Member is not authorised by the FCA, *eg* because they are located outside the United Kingdom, they should conform to corresponding local statutes in respect of such approval.

A broker may not disclose the identity of the counterparty to a Block to other potential counterparties unless the broker has previously received that counterparty's permission to do so. Brokers may disclose the terms of Blocks in furtherance of negotiations, which may include indicating that the negotiations have ended.

f) Price

Members must ensure, when arranging Block Trades, that the price of any Block Trade (other than that for a Block TAS Trade) being quoted represents the fair market value for that trade. This is the price that the Member considers to be the best available for a trade of that kind and type. On each occasion of quoting a Block Trade price, the Member must, at the time, make it clear to the potential counterparty(ies), whether a Member or a client who is not a Member of the Exchange, that the price being quoted is a Block Trade price and is not the prevailing Market price.

When determining a Block Trade price (other than that for a Block TAS Trade), a Member should, in particular, take into account the prevailing price and volume currently available in the Market, the liquidity of the Market and general Market conditions. He is not obliged to obtain prices from other Members, unless this would be appropriate in the circumstances.

Block Trades are not included in the determination or calculation of any settlement price, Index or marker published by the Exchange, nor do they affect the daily published high and low trades.

g) Reporting to the Exchange and registration

Once a Block Trade has been organised the Members must report the Block Trade details to the Exchange in accordance with ICE Futures Europe Trading Procedure 17.

Block Trades may be reported to the Exchange by the entry of the Block Trade details to the ICE Block facility ("ICE Block") (or by any other means determined by the Exchange from time to time).

(i) Members may post a Block Trade by entering into ICE Block both the buy and sell sides of the trade as a cross trade.

(ii) Where the Block Trade is agreed between two separate Members ("Non-crossed Trade") one of the Members party to a Non-crossed Trade inputs into ICE Block its own side of the deal (i.e. either the buy or sell side of the trade) alleging the counterparty Member to the deal. The counterparty Member to the deal is required to accept the alleged Non-crossed Trade in ICE Block. Once the Non-crossed Trade has been accepted by the counterparty it flows through to the ICE Systems in the normal manner.

In order to facilitate the swift matching of Non-crossed Trades the submitting Member must complete mandatory Order Reference and Contact Number fields to assist any queries prior to acceptance by the counterparty Member.

Unless otherwise agreed by the relevant Members, Non-crossed Trades shall be entered by the buying Member in respect of Non-crossed Trades in single contract months. All legs pertaining to multi-legged strategy trades should be entered into ICE Block by the Buyer of the front month.

ICE Block assigns each new trade a unique deal ID and provides an audit of all actions undertaken on ICE Block for that particular day.

Only Exchange Members are able to register trades on ICE Block, but must first apply to the Exchange for access.

Affiliate or group companies may be eligible to trade on behalf of an Exchange Member, provided the specific written permission of the Member to that effect has first been lodged with the Exchange.

Details of a Block Trade must be entered into ICE Block within the specified time limit after verbal agreement on the terms of the Block Trade was reached between the parties. In the case of Non-cross Trades, the details of the Block Trade must be both entered into ICE Block and accepted by the other Member within the specified time limit. The time of the arrangement of the Block Trade must be recorded by the arranging Members on the order slip. If technical or any other difficulty prevents prompt entry, Members should contact IFEU Compliance or the Help Desk to ensure the fact and time of the trade are recorded while the technical issue is resolved.

The Exchange may check the validity of the Block Trade details submitted by the parties to the Block Trade. If the Exchange (following consultation, where necessary, with ICE Clear Europe and subject to their right to refuse registration) is not satisfied that all such details are valid, it will void the Block Trade. Any decision by the Exchange not to register a Block Trade is final.

Registration of a transaction does not preclude the Exchange from instigating disciplinary procedures in the event that the transaction is subsequently found to have been made other than in compliance with the Regulations.

The Block Trade price and volume will be broadcast to the Market via the ICE Platform.

The Block Trade is registered under the executing Members' company mnemonic with a trade type of 'K', except for Block TAS Trades which will use the 'Z' trade type code.

h) Registration by ICE Clear Europe

During the consultation (where applicable) between the Exchange and ICE Clear Europe referred to in point g) above, ICE Clear Europe will risk-assess the Block Trade, and where insufficient funds are held, may call for additional margin from the Clearing Member.

i) Complex strategies – Futures

For the purposes of the Block Trade facility, the recognised futures strategies have the following meanings:

Butterfly spreads

The simultaneous purchase and sale of two calendar spreads i.e. Buy January/February to Sell February/March, or the simultaneous purchase and sale of two calendar spreads sharing a common month i.e. Buy June 07/December 07 to Sell December 07/June 08;

Condor spread

The simultaneous purchase and sale of two calendar spreads i.e. Buy January/February to Sell March/April;

Strip trades

The simultaneous purchase or sale of two or more consecutive contract months i.e. January/February/March, priced either individually or on an average price basis. Strip trades involving quarter months i.e. March/June/September and calendars are also permissible and the minimum volume requirement in respect of calendars or quarters will apply to the entire strategy.

Non-consecutive settlement spread trades

A contingent order to buy one contract month at settlement price and selling another non-consecutive contract month at settlement price; and,

Non-standard crack spreads

Standard crack spreads are those listed on the ICE Platform and are not eligible to use the complex trade volume thresholds for Block Trades.

Non-standard crack spreads are those involving months or combinations of months other than those listed on the ICE Platform and those crack spreads with a ratio other than 4:3.

Further, Block Trades may be arranged for the ICE Brent Futures leg of an ICE Brent Futures/NYMEX WTI arbitrage, and the ICE Gasoil Futures leg of an ICE Gasoil Futures/NYMEX Heating Oil arbitrage.

If a block transaction involves an ICE Future/Option and an S2F Contract then it will be deemed a complex strategy and subject to a 15 minute reporting requirement.

j) Complex strategies - options

This facility has been introduced to allow Members to trade with certainty of execution for contingent order types which are not currently supported by the ICE Platform. A separate volume threshold will apply to complex strategies.

The Exchange does not propose to enumerate all possible options strategies which may qualify as complex strategies, but the following strategies will be recognised as complex strategies by the Exchange.

Ratio call and put spreads

Condors

Butterflies

Iron butterflies

Conversions/reversals

Ladders

Diagonal spreads

Members wishing to register other orders as complex strategies may apply to the ICE Futures Europe Market Supervisor for recognition of the strategy. The decision of the ICE Futures Europe Market Supervisor as to whether or not an order qualifies as a complex strategy will be final and binding.

All complex strategies may also be submitted as volatility trades. The volume threshold applicable to a volatility trade is in respect of the options leg, i.e. the volume of the related futures leg may be less than the options leg, depending on the relevant delta. There are no minimum thresholds applied to futures Blocks which form the delta hedge on an option strategy.