ICE Futures Abu Dhabi EFP, EFS, EFRP and Basis Trade Policy

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ICE Futures Abu Dhabi Policy on the Exchange for Physical (“EFP”), Exchange for Swap (“EFS”), Exchange for Related Positions (“EFRP”) and Basis Trading facilities

This policy provides details and requirements regarding the use of the Exchange for Physical (“EFP”), Exchange for Swap (“EFS”), Exchange for Related Positions (“EFRP”) and Basis Trade facilities for ICE Futures Abu Dhabi (“IFAD” / “Exchange”) contracts, and the factors to be considered when bringing bilateral positions on-exchange.

1. GENERAL

- Members should ensure that they have appropriate systems and controls in place to ensure that EFPs, EFSs, EFRPs and Basis Trades are registered in accordance with Exchange Rules. Failure to do so may render the Member liable to disciplinary action by IFAD and potentially other regulatory authorities.

- The Exchange may require Members to supply evidence of the underlying physical, cash or swap transaction either prior to or following registration of the trade and reserves the right, at its discretion, to unilaterally refuse registration. Documentation relating to the physical or OTC component of the EFP, EFS, EFRP or Basis trade must be retained by the Member. If the Member is not directly responsible for the execution, it must have in place appropriate arrangements to promptly provide IFAD with the required information.

- The Exchange may request further documentation or request sight of evidence in support of the registration as outlined in Rule F.5(c) and F.5.C(c) (whether by sight of contract notes or otherwise) to confirm the legitimacy of the underlying transaction. Members will appreciate that the processing of such trades will be significantly quicker on most occasions if such documentation is available at the time of requesting the registration. Notwithstanding any such request, IFAD may retrospectively audit and inspect a random sample of accepted EFP, EFS, EFRP and Basis Trades to ensure that there was a legitimate underlying transaction.

2. SUMMARY OVERVIEW OF EFP, EFS, EFRP AND BASIS TRADING FACILITIES

- An EFP is a transaction involving the simultaneous exchange of an IFAD futures position for an equivalent physical position. A hallmark feature of the EFP is that each party to it ends up with the other's original position. A Basis Trade, used for financial instruments, is similar. An EFP does not have to be in the same commodity as the future. However, there would be an expectation that the physical and future would be in the same asset class or be plausibly related. For example, it is acceptable to give up crude futures against physical fuel oil, if the fuel oil has been priced in relation to crude.

- An EFRP is a transaction where the equivalent position that is being exchanged for futures is not physical. For example, this could be a position in units of a related index with an equivalent value to the underlying futures product.

- An EFS is a transaction involving the conversion of an OTC exposure into a futures exposure. A hallmark feature of the EFS is that the originating party ends up in the *same* position as before, save that where the exposure was previously bilateral and OTC, it has now become futures. Alternatively, the effect of the EFS may be the reverse, i.e. to move an on-exchange position off-exchange. Whether it has this effect depends on the opening OTC and futures positions at the time of the trade.

- The Basis Trading facility can be used to register, as Basis trades, Futures trades which have been organised as part of a trade involving a combination of an approved Basis Trade instrument against an appropriate number of offsetting Futures Contracts in accordance with Rule F.5.C.
- EFP, EFS, EFRP and Basis Trades must be reported to the Exchange as set out in Section 5 below.

- On the day of the expiry of a contract month/date, EFP, EFS and EFRP trades in respect of the expiring contract date/month may be submitted to the Exchange up to the times set out in Section 5 below.

- The Basis Trading facility can be used in respect of a delivery month for a Futures Contract on any Trading Day as set out in point 4(a) below.

- For details about acceptable prices for EFP, EFS, EFRPs and Basis Trades refer to Section 3 below.

3. PERMITTED USE OF EFP, EFS, EFRP AND BASIS TRADING FACILITIES

3.1 The key uses of the EFP, EFS, EFRP and Basis Trading facilities are as follows:

- To permit bilaterally traded physical and paper transactions to be hedged using ICE Futures Abu Dhabi contracts in a single contingent transaction (e.g. where the seller of a crude oil cargo becomes the buyer of Futures and the buyer of a crude oil cargo becomes a seller of Futures.
- To enable holders of bilateral swap positions to replace them with the equivalent in ICE Futures Abu Dhabi contracts.
- To facilitate hedging: by enabling the organisation of simultaneous transactions in a financial asset or instrument and an appropriate number of offsetting futures contracts.

There are a number of pricing mechanisms that are used in bilateral transactions which the Exchange will accept on an EFP/EFS registration basis.
These include, inter alia:

Singapore Markers MOPs	- Singapore markers -Mean of Platts price	When a bilateral swap or physical transaction is based on the Singapore Markers, IFAD marker or MOPs and the bilateral contract has been executed contingent on its conversion into IFAD contract at an agreed time, date or trigger point subsequent to the trade.
ICE Futures Abu Dhabi marker prices		(excluding any tradable marker)

3.2 Participants involved in an EFP, EFS, EFRP or Basis Trade must be separately controlled (see Appendix 1 for further details).

3.3 For EFP, EFS and EFRP trades in contracts which are subject to a Position, Expiry or Delivery Limit[1], there must be evidence of a bona fide pre-existing physical or swap agreement that is capable of being independently settled on its own terms, i.e. its completion is not directly dependent on the transaction being registered on the Exchange.

The underlying physical contract must be properly documented and available for production to IFAD on demand in order to validate its legitimacy. In this context, proper documentation is a legally binding bilateral contract between market participants. The contract should be either an industry standard contract, or one whose terms are of an equivalent standard identifying:

- the underlying product being traded;
- the price or prices involved; and

[1] IFAD_Delivery_Limit_and_Position_Limit.pdf

- the arithmetical reconciliation of the underlying to the futures regarding the quantity and the price of the futures being posted.

3.4 For EFS trades in all other commodity instruments, the underlying contract requirement may be satisfied by providing order documentation such as, but not limited to:

- order slips (either trader or broker);
- confirmation notes;
- copies of electronic confirmations (email, instant message);
- copies of a trader's blotter.

The futures traded need not be in the same month as specified in the original contract, but where a different month is used - for example, because of unanticipated delays in making a delivery - the change in the futures to be used should be noted in an update to the underlying contract.

3.5 The EFP, EFS, EFRP and Basis Trade facilities may not be used with the intent to:

- facilitate the transfer of funds between parties and/or locations whether for money laundering or resolution of errors;
- transfer sums of cash from one party to another as a means of payment;
- allocate gains and losses between the futures and cash or OTC derivative components of the EFP, EFS, EFRP and Basis Trade;
- evade taxes;
- circumvent financial controls by disguising a firm's financial condition;
- accommodate any other unlawful or non-commercial purpose.

3.6 If IFAD is not satisfied that there is a legitimate commercial rationale for the EFP, EFS, EFRP or Basis Trade, registration may be refused.

3.7 If the price at which an EFP, EFS or EFRP to be registered is not at current market price or within the high/low range of the day, IFAD may request further information to ensure that the transaction is a legitimate use of the facility.

3.8 The price of the futures leg(s) of a Basis Trade must be within the high/low traded price that occurred on the ICE platform in the preceding 30 minutes. If no trade has occurred in the relevant delivery month in the preceding thirty minutes, the price of the futures leg(s) must be within a price range determined by IFAD. In all cases, the price of the futures leg must represent a fair market value. In exceptional circumstances, IFAD may, at its absolute discretion, authorise a Basis Trade where the price of the futures leg(s) is outside the parameters set out above. Prior to authorising such Basis Trades, IFAD may request additional information from the executing Member.

3.9 Members should ensure they hold sufficient funds at ICE Clear Europe ("ICEU") to offset any negative variation margin which results from the posting of an EFP, EFS, EFRP and Basis Trades. ICEU may also require that sufficient funds are held on account to meet any consequential change to initial margin. Failure to do so may result in a refusal by ICEU to register the trade in accordance with ICEU's Regulations. IFAD Market Oversight reserve the right to audit any EFP, EFS, EFRP and/or Basis Trade and, if necessary, registration may be delayed until both IFAD and ICEU are satisfied that funds in the relevant Member's ICEU account are adequate.

4. FACTORS TO BE CONSIDERED

The limiting factors on acceptance of EFP, EFS, EFRPs and Basis Trades for registration are:

4.1 EFP

The Exchange will accept that an EFP trade may not have a 'like for like' physical contract against the futures. An acceptable example could be a 'basket of refined physical products' (e.g. an alternative Crude Oil, Fuel Oil, Gasoil, and Naphtha) being collectively hedged via EFP using Murban Crude Futures. In such scenarios, the documentation must outline the arithmetical reconciliation of the underlying to the futures regarding the quantity and the price of the futures being posted, i.e. how the price and quantity of the futures correlates to the price and quantity of the physical legs.

4.2 EFS

Underlying swap contracts cannot be 'contingent' on acceptance by IFAD. For example, the underlying swap contract must not be retrospectively cancelled out by a further linked swap that comes into effect if the trade is not accepted by IFAD as an EFS.

'Transitory' EFSs, where the original underlying swap contract is offset/cancelled by a back-to-back swap and then replaced by a futures position as part of the same strategy, are permitted. Each swap contract must be able to stand alone if executed singly and must bear genuine economic risk.

4.3 EFRP

EFRP transactions are permissible in Energy contracts. For example, an EFP trade may be used to hedge a transaction in an Index with exposure to crude oil. For such transactions, the underlying physical contract must evidence arithmetical reconciliation of the value of the Index units to the futures regarding the quantity and the price of the futures being posted.

4.4 Basis Trade

The approved Basis Trade instrument would be:

- a cash bond;
- an OTC swap;
- a forward rate agreement ("FRA");
- a basket of stocks; or
- such other instrument as designated by IFAD.

Trading Procedures 16A outlines permissible approaches for the construction of hedge ratios. Where a hedge ratio differs from such methods, the Member who is reporting the trade is required to seek approval from IFAD and justify the method employed in advance of such submission.

5. PROCEDURES FOR THE REPORTING OF EFP, EFS, EFRP AND BASIS TRADES TO THE EXCHANGE

a) Reporting time limits

For EFP/EFS trades:

EFP/EFS trades for all eligible Futures Contracts, may be reported to the Exchange at any time during trading hours and for 30 minutes after the close of the relevant individual Contract (or the close of the ICE Post Trade and Clearing Systems ("the ICE Systems") whatever is the earlier).

On an expiry day, ICE Murban Crude Oil Contracts, EFP/EFS trades in respect of the expiring contract date/month must be reported within three hours after the expiry of the contract date/month. EFP trades reported within three hours after the expiry of the contract date/month will be subject to review by Market Oversight where details of the related physical transactions relating to the EFP may be requested.

For Basis Trades and EFRPs:

Basis Trades and EFRPs may be organised only during the trading hours of the Futures Contract concerned.

The Basis Trade / EFRP details must be reported to the Exchange through the ICE Block facility as soon as practicable. In any event, details of the Basis Trade / EFRP must be reported to the Exchange by the Basis Trade / EFRP executing member and accepted within fifteen minutes of the time at which the Basis Trade / EFRP was agreed. Members must not delay submission of a Basis Trade.

The Basis Trading facility can be used in respect of a delivery month for a Futures Contract on any Trading Day.

b) Minimum Volume Thresholds

For Minimum Volume Thresholds in relation to Basis Trades please refer to the ICE Futures Abu Dhabi Block Trades Policy.

c) Reporting to the Exchange

Once an EFP, EFS, EFRP or Basis Trade has been organised the Member(s) must report the details to the Exchange in accordance with ICE Futures Abu Dhabi Trading Procedure 16.

EFPs, EFSs, EFRPs or Basis Trades may be reported to the Exchange by the entry of the details to the ICE Block facility (or by any other means determined by the Exchange from time to time).

(i) Members may post an EFP, EFS, EFRP or Basis Trade by entering into ICE Block both the buy and sell sides of the trade as a cross trade.

(ii) Where the EFP, EFS, EFRP or Basis 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 EFP, EFS, EFRP or Basis Trades on ICE Block, affiliate or group companies may be eligible to trade on behalf of an Exchange Member but only with the specific written permission of that Member which has been received by the Exchange.

All Exchange Members are eligible to register EFP, EFS, EFRP or Basis Trades using ICE Block but must first apply to the Exchange for access.

The Exchange may check the validity of the EFP, EFS, EFRP or Basis Trade details submitted by the parties to the trades. 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 EFP, EFS, EFRP or Basis Trade. Any decision by the Exchange not to register an EFP, EFS, EFRP and/or Basis 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 Rules.

The EFP, EFS, EFRP volume will be broadcast to the Market via the ICE Platform. For Basis Trades both volume and price will be broadcast.

For the trade type codes that will be used for registration see the table below:

Transaction Type	Trade Type Code
EFPs	E
EFSs	S
Basis Trades	4

Further details in relation to the ICE Block Trade Facility may be obtained from ICE Futures Abu Dhabi Market Supervision on +44 (0) 207 382 8200, Option 5.

Any questions arising from this Policy should be addressed to:
IFAD Market Oversight on +971 (0)22 45 4915 / +971 (0)22 45 4920 or on e-mail to Compliance-IFAD-MarketOversight@TheIce.com.

Appendix 1 - FAQ

1. What does "separately controlled" mean?

Genuine separately controlled affiliates must be validated as consistently demonstrable across all aspects of activity. For example, business units would have to report and manage their positions separately for the purposes of position reporting and compliance with IFAD position limits. Those positions could not be netted off against each other and would be held separately (gross) to expiry and margined separately.

For example, if one unit held a long position approaching expiry and the other unit was short in the same product, each would have to trade out of the position independently (which they could legitimately do with each other via a cross). All trading activity on IFAD would likewise be treated as between separate parties. As such, these affiliate entities or business units could not undertake EFP, EFS, EFRP or Basis Trades and then subsequently split the resultant volumes between the affiliates. The expectation of IFAD is that each affiliate or business unit would also have independent management and where appropriate, articles of association.

2. Are Tri-Partite situations allowed?

Tri-party Basis, EFS or EFP Trades, where the middle party (who buys and sells the underlying (cash) to the future) is removed from the exchange-traded transaction are not permitted. In general, the principle is that the counterparties to the futures leg must be the same counterparties to those involved with the underlying basket or OTC transaction. In a tri-party situation, two separate Basis, EFSs or EFPs should be entered, with the middle party buying in one transaction and selling in the other transaction. This does not apply to brokered deals, where the middle party never owns the swap or physical.

However, IFAD is aware of circumstances where affiliates who are counterparties to the underlying Physical, Cash or OTC transaction leg may legitimately use another affiliate within the same commercial group as an agent to buy and sell the futures leg on their behalf as part of the same ultimate EFP, EFS or Basis Trade transaction. In this situation, both commercial group affiliates must have a common ultimate beneficial owner. In such circumstances the expectation would be that these entities have sufficient paperwork (such as a legal master agreement) to document the agreement that the affiliate entities transacting have title to whatever they pass. Any paperwork supporting the EFP, EFS EFRP or Basis Trade would then reference that such a transaction would be made further to that original legal master agreement.

Example: ABC Trading and Supply (ABC T & S) organises an EFP in Murban with Energy Trading Inc. ABC Refining Pte (ABCR), a sister affiliate of ABC T & S, has no futures account. ABCR delivers the Murban to Energy Trading Inc. ABC T & S receives the corresponding futures from Energy Trading Inc.

This is acceptable, provided there is a prior agreement in place whereby either ABC entity can act as the other's agent in respect of these trades.

3. **Is it permissible to execute an EFP based on an agreement which amends the physical contract?**

Example: Amending the pricing mechanism based on September futures instead of July futures

Yes. An EFP can still be posted using futures in a different month or quantity to that originally envisaged, provided the corresponding change in the physical terms documents this, i.e. there should be a contract amendment noting the roll of the futures. The roll can be in either direction.

4. **Is there ever an obligation to agree or post an EFP - for example, to manage a position in a physically delivered contract?**

No. An EFP is a bilaterally-arranged physical trade settled via futures. Organising an EFP is at the traders' discretion. If you expire a long (short) position in a deliverable contract without arranging an EFP, your position will be matched with a short (long).

5. **What is the difference between an EFP and an ADP (Alternative Delivery Procedure)?**

An EFP is a physical trade settled via futures that is organised *before* or just after expiry subject to IFAD rules in respect to the specific contract in question.

An ADP is an agreement after the expiry, and after the EFP posting deadline, made between two parties who have been matched according to the provisions of that contract. The parties who have been matched via IFAD can agree mutually and bilaterally to amend the terms of the delivery, but by doing so, will have been deemed to have undertaken such actions outside of IFAD's normal delivery process.

6. **Do I have to have credit arrangements in place with a counterparty if I am matched?**

No, in an Exchange delivery the Clearing House stands and passes funds between the originating firm and its counterparty.

7. **Can I deliver the physical leg of an EFP somewhere other than where the contract originally stated?**

Yes, as long as the change has been documented between the parties. Optionally, you can have a delivery location that is left open and subject to later nomination / declaration.

8. **Is it acceptable for a participant to close out an existing position at IFAD and substitute this exposure with a bilateral OTC swap?**

IFAD would consider the circumstances of the provision of the OTC swap. If the *bona fide* OTC swap bears genuine economic risk and has been formally agreed with a view to enabling a customer to remove a cleared exposure, then any subsequent agreement during the same conversations by those same counterparties to submit for registration an EFS at IFAD would be acceptable. Conservation of working capital is a legitimate economic rationale for such a swap - the purpose is commercially rational and the decision to carry OTC rather than cleared exposure bears economic risk.

All details of the OTC swap, including the time agreed should be properly documented. It would not be acceptable to contingently agree such an OTC swap, pending the successful registration of the EFS trade. The OTC swap must be organised first - IFAD would accept this as meeting the stand-alone requirement.

Further to the agreement of the OTC swap, the supporting paperwork with the Swap Agreement can be transmitted to the counterparty after the registration of the EFS trade, provided it references the original time that the OTC swap was agreed. This also means that during the course of the agreement of the OTC swap, legitimate reference can be made to the subsequent intention to submit for registration to IFAD an EFS trade, provided such communications also make reference to the intention of the participant to closing out their IFAD exposure.

IFAD would expect the full swap documentation to be produced upon request, inclusive of the time and date of agreement; this time would necessarily be prior to that of the EFS registration at IFAD.

Appendix 2 - Examples

Examples of a typical direction for EFP Trading

Example 1: Participant A makes an agreement with Participant B to deliver physical crude oil, and both agree to hedge the physical position on IFAD via EFP facility. A is long a crude cargo; B has no crude cargoes.

Participant A would therefore buy futures as they would be the seller of the physical.
Participant B would sell futures, as B would be the buyer of the physical.

A now has no crude cargoes and B is now long one cargo, i.e. each now has the other’s starting physical position.

Example 2: Participant A is long 2,000 lots of crude oil futures as a hedge for a physical cargo that they plan to take delivery of. Participant B is short 2,000 lots of crude oil futures as a hedge for production that they know they will need to sell in the prompt market.

Participant A enters into an EFP with Participant B to exchange their 2,000 crude oil futures for 2,000,000 barrels of physical crude oil loading on to their vessel at an agreed upon date range and price.

Both participants now do not have any crude oil futures contracts and A is long their cargo of crude and B has sold their production.

Example of a typical direction for EFS Trading

An OTC swap contract exists between Participant A, the buyer, and Participant B, the seller. Therefore, there is a *bona fide* pre-existing swap agreement.

Participant A and B wish to move the OTC swap position to IFAD and utilise the EFS facility to do so.

Participant A would be buying the futures and Participant B would be selling the futures which would replicate the original OTC positions.