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To: MARKT LIST G3
Subject: Meeting with ICE

On Tuesday, July 26th. Valerie Ledure, Carsten Ostermann, and Jasper Jorritsma met with [redacted], [redacted] and [redacted] of ICE and [redacted] of Financial Reform Consultancy.

The CFTC allow ICE to offer contracts linked to US contracts to US customers under a series of no action letters.
These include the condition that ICE respects all US rules, including disclosure and position limits, with respect to these contracts.
The DFA will offer a similar regime by introducing the notion of 'foreign board of trade'.
The ICE consider that the CFTC proposals on position limits would only affect their WTI contracts.

Current CFTC limits only apply three days prior to expiry. ICE consider applying them across the board as a sweeping change and do not quite see a justification for that.
The CFTC will extend them to apply permanently.

ICE interpret the CFTC proposals as applying to the open interest across all outstanding contracts.
For physically settled instruments, the CFTC proposes a cap of 25% of deliverable supply.
For cash settled, the limit would be a factor of that.
These positions are to be calculated as the total futures position (so no offsetting with positions in the underlying).
The limits apply across exchanges, aggregating all contracts with the same underlying and economiclly equivalent instruments.
It is unclear if positions would need to be unwound pro rata.

There can be an exemption from these limits when the transaction is a hedge for either risk management or to offset a cash position.
A transaction needs to be unwound if the exemption is not accepted.
A dealer would get an exemption when hedging for a customer.
For the exemption, you need to supply monthly reports to show you met the criteria.
The position in the underlying needs to be included for the exemption.
These reports are to be made public, including the names, with a delay. It is unclear whether sizes will also be made public.
The CFTC is considering a cap on the size of the exemption.

The ICE currently apply position limits on some of the products on their own markets, primarily to address squeezes.
For cash settled products, they do position management, looking at absolute size, market direction and intention.
They have a trade emergency panel which can decide to require unwinding a position.
This is notably done for the risk of disorderly markets when a position will roll.
They look at average positions, in order to address natural long and short positions which could hide directional bets the other way.

For physically delivered products, the ICE have limits only for gas oil.
Gas and electricity have default cash settlement, so for abuse purposes are essentially cash settled.
For gas oil, there is the risk of squeezes on a volume or relative to the delivery window.
Limits are informally set at 5% for each market participant, except for financials for whom the limit is zero as they do not take physicla settlement. There is a 10% limit for the market as a whole.
There is an exemption when you can show you can lift the position.

It is difficult to define the supply of Brent, as those contracts are based on a mix of products.
Also, Brent contracts have the option of being physically settled, which promotes alignment between

futures and underlying prices.

In general, ICE consider position limits will increase volatility.
Notably, WTI is more volatile than Brent.
Futures cannot be used to manipulate prices of physical products.
Limits work for traders, but not for producers and buyers as they have natural long or short positions in the futures markets.
ICE are concerned that legal limits could hurt their ability to challenge behaviour, as market participants can argue they are acting within legal limits.

They welcome position reporting.
ICE have recently introduced a system of commitment of traders reporting.
This applies to Brent and gas oil.
They have used the CFTC system as a basis for theirs and the classification as that is the effective standard in the market.
They are working to backload historical data.

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