30 May 2017

ICE/Trayport Remittal

Trayport response to CMA RFI dated 25 May 2017

1. ***Please provide Trayport's annual revenues generated by ICE Link for its most recent financial year.***

   2016 ICE link revenue = [confidential]

2. ***Please explain whether the requirement for an STP Link is only necessary for ICE block futures executed via a broker venue (OTC transactions) and/or whether direct exchange execution (using ICE Link, and which is routed to ICE's system) will also require an STP solution in order to return Trade ID data to ICE Link users.***

   A point of clarification: the STP Link under discussion is only relevant for sending trades executed off exchange (i.e. OTC) for clearing (at ICE's clearing house). Trades executed on ICE's exchange (on its CLOB), including via the ICE Link, are automatically cleared within ICE's trading and clearing infrastructure without the need for an STP Link with brokers. See also Q4.

   The relevant MiFID II requirements are in two parts:

   1. Sending additional data to the exchange or clearinghouse with each order or deal. This is already planned to be supported in the ICE Link with no additional STP solution required.

   2. Returning the Trade ID back to market participants so the ID can be used for later reporting required under MiFID. The current ICE Link is bi-directional and Trayport already receives back an "Execution ID" when a trade is completed via the ICE Link. This is not the "Trade ID", but can be used to help uniquely recognise a trade.

   ICE has not yet published all of the detail of its post-trade MiFID II requirements so Trayport does not know for certain whether the Execution ID alone is sufficient for market participants. If it is sufficient, no additional development will be required.

   If the current Execution ID is not sufficient, Trayport will likely look to use the ICE FIX Trade Capture API to receive the Trade ID information. However, this would only enrich trades executed via the ICE Link as an extension of the existing service, and not a full trade capture service, which would include covering trades executed on other platforms and ICE's full product set [confidential].

3. ***Please roughly estimate the annual percentage of ICE Link transactions that would be caught by the MiFID II 'financial' classification and those that would be exempt under the REMIT carve-out.***

   For products traded OTC via a broker and submitted to ICE for clearing 100% of trades would be classified as "financial".

For products traded on ICE exchanges via the ICE Link, all transactions would fall within the scope of the "financial" classification under MiFID II with the exception of spot gas products (as spot products fall outside of MiFID). [confidential]. Trayport therefore estimates that approximately [confidential] of transactions via the ICE Link would fall within the "financial" classification.

The REMIT carve-out only applies to products traded on an organised trading facility (OTF) platform, which ICE does not currently operate.

4. Please explain how ICE block futures trades that are currently executed using ICE Link are routed for clearing by brokers.

To clarify, there are two routes of execution: (i) direct execution on the exchange's central limit order book (CLOB); and (ii) matching of ICE block futures by brokers.

i. Direct CLOB execution of ICE futures on the ICE exchange. This can be done via the ICE Link if the customer transacts through Trayport, via WebICE or via another ISV. This is connectivity between the trader and ICE (and automatically onto ICE clearing); no brokers are involved in this method of execution.

ii. Matching of ICE block futures by brokers (on their BTS). These broker matched trades are then submitted manually for clearing on ICE. This is where STP is currently missing.

No ICE block futures are executed via the ICE Link, and no trades via the ICE Link have any broker involvement.

ICE block futures arranged by brokers using the BTS can be submitted for clearing to ICE in one of three ways:

i. Manual submission using ICE Block application. https://www.theice.com/technology/ICE-Block

ii. Automated submission (STP) via broker developed links to the ICE Trade Registration API from the BTS into ICE, [confidential].

iii. Automated submission (STP) using a Trayport developed interface to the ICE Trade Registration API from the BTS into ICE. This interface is [confidential] currently not active as Trayport was prevented from going live by the CMA's suspension of the New Agreement.

For both options i) and ii) there are two issues under MiFID relating to supporting orderly markets without Trayport's STP Link:

- It is difficult for traders to be able to supply the extra information required for each order and trade under MiFID to the broker so they can be sent via the manual or API submission. This can create significant overhead costs and human errors.

- The TradeID is not attached electronically to the trade in the BTS. This could be performed as a manual step, [confidential]. Given that such connectivity is unsupported and not known by Trayport it is difficult for us to be able to ever ensure that it would not be affected by a Trayport upgrade of Trayport's systems.

5. ***Please confirm, or otherwise, our understanding that the following options are available to Trayport in order to ensure that traders and brokers will be MiFID II compliant when trading block futures using the ICE Link:***

    a. ***Establish a connection between broker venues' BTS system and ICE's clearing house using Trayport's existing STP link and in agreement with ICE.***

    b. ***Trayport establish an independent/bespoke STP connection between broker venues' BTS system and ICE's clearing house using ICE's publicly available API, as would be the case for its ISV rivals.***

    c. ***Open-up Trayport's BTS API to allow brokers to establish their own independent STP connection between their BTS system and ICE's clearing house.***

Options (a) and (b)

For Trayport, options (a) and (b) are the same technical option, as in both cases it is the same public APIs in use and the same technical path for trades to be submitted. The key difference is whether there is an agreement in place to govern the STP connection and relationship or not.

Access to the publically available APIs required for STP connectivity into ICE's clearing (and used by other ISVs) still requires agreement with ICE, both contractually and in relation to a technical conformance process. ICE would need to permission any connection to its exchange/clearing house.

Trayport already has an agreement in place for ISV connectivity to ICE Futures Europe under standard contractual terms [confidential]. However, for connectivity to *ICE Endex*, the relevant [confidential] Agreement has been suspended as part of the CMA's suspension of the "New Agreement".

[confidential]. Therefore, establishing STP connectivity without such an agreement in place with ICE (as suggested by options a and b) would not give Trayport or its trader clients sufficient contractual protection, in particular in terms of technical support.

Further, going down this path does not allow Trayport to generate revenues for supplying the connectivity into ICE. Trayport would have to manage this link at cost and any future development would need to be funded either by the trader clients or be weighed up against other commercial considerations when investment decisions need to be made by Trayport's shareholder. The CMA requiring Trayport to take such a route without the necessary contractual protections cannot be in the best interests of

Trayport's clients for support and technical enhancements. This would also allow ICE to have an advantage when compared to its exchange competitors who do pay Trayport for clearing connectivity. ICE would be getting this connectivity without charge. [confidential].

Option (c)

Option (c), opening up the BTS API to allow independent STP solutions to be built, [confidential] there is a risk to the stability of the entire Trayport network if such a core component of the trade life-cycle is replaced by multiple bespoke solutions, and the quality of the service could diminish.

[confidential]. If the CMA were to require the bespoke development envisaged in option (c), both the Trayport network and the clients using it would be at risk of any misconfigured or error prone bespoke interfaces being connected to it. Such misconfiguration issues also could severely impact Trayport's ability to implement upgrades or fix issues quickly and could delay or even prevent Trayport identifying the root cause of the issues in the first place. Trayport would in turn have extreme difficulty in fixing the problem as Trayport did not build the interface. Trayport would instead be reliant on third parties who do not understand the totality of the network. For each of these bespoke connections the problem of support, upgrades and fixes would be compounded if not multiplied.

In addition the development of such a bespoke solution is an additional cost for broker clients. Again this would result in ICE receiving some of the same benefits as its competitors without having to pay for them. ICE would therefore enjoy an advantaged position over its competitors. In turn this risks Trayport's future technical improvements as no revenue is generated for the connectivity.

6. ***If there are other alternatives to those set out in question 5 above, please explain what these are.***

In theory, another alternative could be for BTS clients to invest in staff to manually submit trades via ICE block with the correct additional information and enter the trade ID back into the Trayport BTS. However this is not a realistic or practical solution as it would result in much slower submission, human errors, and increased costs for brokers.

7. ***To the extent option 5(b) above is a viable option please explain:***

    a. ***the cost to Trayport of pursuing this option*;**

Connectivity to the ICE clearing system using the same public APIs as other ISVs has already been developed. However this is over 12 months old, so would need to be re-tested and certified, and the additional MiFID II functionality added.

To get the functionality operational again, before adding the MiFID II functionality, would cost Trayport [confidential], depending on the number of changes since the connectivity was originally developed.

However if option 5(b) did not include the contractual support and operational assistance of the New Agreement, the ongoing costs to Trayport could be higher. From Trayport's perspective, a solution which includes these important contractual protections (and fees for providing the service) is a significantly better option.

b. ***the extent of ICE cooperation required for this option and whether ICE would be incentivised to cooperate in order to maintain ICE liquidity available via ICE Link*****; and**

ICE would need to provide updated API documents for the public APIs, be available for assistance in testing, and perform a conformance test.

The STP activity would not have any impact on ICE liquidity via the ICE link as they connect different systems.

c. whether this option would be preferable to opening up the Trayport API to brokers (enabling them to develop their own solution).

Yes this option would be preferable to opening up the Trayport API to brokers. Trayport knows and understands the complexity of the inter-connections of its software components, having multiple bespoke solutions using an API at the core of providing MiFID II support for cleared trades, compared to a standardised solution provided by Trayport is very likely to result in operational issues [confidential].

d. Finally, please confirm that in a worst case scenario where ICE did not cooperate, and which could lead to a disorderly market, this is a risk that would be faced by other rival ISVs and broker-own solutions.

As outlined above rival ISVs or broker-own solutions would be sub-optimal and highly risked on their own. However they would still need ICE cooperating to develop into the public APIs, as would Trayport.

30 May 2017

Appendix

[confidential]