

ISDA Operations Committee

Process Working Group

- Drive Process Efficiency
- Standardise Operational Practice
- Evolve 'Best Practice' Standards
- Influence Market Development / Technological Change

Best Practice Statement: Interest Compensation Claims

Purpose

The purpose of this Best Practice Statement is to outline guidelines for the submission and processing of interest compensation claims arising from payments relating to OTC Derivative transactions confirmed under the terms of an ISDA Master Agreement 2002 (or any earlier version thereof).

Current State

- There are currently numerous market practice guidelines for submission and processing of interest compensation claims produced by market wide organisations that are either product or currency specific.
- There are no guidelines currently used across the industry which relate specifically to OTC Derivatives and as a result each institution applies a range of criteria to the various components that make up interest compensation claims including de minimis claim amounts, turnaround times and the addition of administration charges.
- Individual ISDA Master Agreements generally contain reference to the contractual right of a disadvantaged party to claim compensation for payments not received on the agreed date and these guidelines are not intended to affect these rights.

Commentary

- The ISDA Interest Compensation Claims Sub Group has discussed current practice around claims for interest compensation claims arising from payments relating to OTC derivative transactions confirmed under the terms of an ISDA Master Agreement 2002 (or any earlier version thereof) and have agreed the following best

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Each party following the recommendations contained in this Best Practice Statement should satisfy itself that those recommendations are appropriate to reflect the commercial intentions of the parties.

practice guidelines in order to assist the efficient and orderly management of the settlements function.

- In general, the guidelines will relate to amounts not received on the due date for payment made in the ordinary course of business as a result of administrative errors. Administrative errors may include (but are not limited to) counterparty calculation errors, missing funding deadlines, agent bank handling errors, incorrect SSI data, late confirmation of transactions, payments credited to the wrong account.
- It is hoped that these voluntary guidelines will be widely accepted as standard market practice although they are in no way intended to supersede the terms of individual ISDA Master Agreements. Where possible these guidelines are designed to be consistent with other published compensation guidelines.
- It is understood that these guidelines may not be relevant in certain situations and in these cases it is anticipated that the current practice of bilateral discussion would continue.

Best Practice Guidelines

- **Timing of claims processing**

Claims should be submitted within 30 days of the actual settlement date

Confirmation of receipt of claims submitted should be advised within 15 days of receipt and any dispute should be raised at this time

Settlement of claims should be within 30 days of receipt

(All dates are calendar based)

- **Administration Fees**

A standard administration fee per interest claim should be included in the compensation calculation, payable to the disadvantaged party, of USD 200 equivalent in the currency of the claim

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- **Claim threshold (de minimis)**

Interest claims of less than USD 200, prior to the inclusion of the administration fee, are regarded as de minimis and are not expected to be submitted.

- **Standard reference rates**

FX rates

FX rates used for conversion in the calculation of both the de minimis amount and the administration fee should be based on the value date of the original contractual settlement date

Reuters page BOE SAF should be used as a standard source for FX rates. In the event that this page is unavailable or for currencies not included parties should agree bilaterally based on standard market practice.

- **Compensation rates**

The rate used to calculate the claim amount should compensate the disadvantaged party for any costs, actual or implied, but should not include any additional spread for the error as this is already include in the administration fee.

Back valuation of the original payment may also be used where the effect will equally compensate the disadvantaged party.

- **General**

The standard claims template Appendix I should be used when submitting a claim for compensation.

ISDA members should wherever possible provide ISDA with an up to date group e-mail address and contact number for use in the submission of claims.

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Appendix I



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