

# ISDA Operations Committee: Process Working Group

## Rate Reset and Payment Advice Notices

### Introduction

- A number of organisations in the market have sought to achieve greater efficiency in their operational processes specifically in relation to generation and dispatch of rate reset and payment advice notices on vanilla OTC derivative transactions.
- This memorandum summarises options discussed by the Process Working Group which organisations may like to consider for themselves and which could form the basis of bi-lateral discussions with other market counterparties.
- The form of Standard Bi-Lateral Letter for Rate Reset and Payment Notices provided below is intended to facilitate bi-lateral discussion about the evolving market practice regarding rate resets. The form is a standard template to be used and, where appropriate, modified, on a bilateral basis. It is recognized that certain counterparties may have system constraints that will delay full adoption of this revised rate reset and payment advice notice process, although the form may be used to state the intention of the counterparties, effective upon a date to be set forth therein.

### Scope

- Vanilla interest rate transactions, confirmed subject to the Relevant ISDA Definitions, and any other transactions agreed between parties (“Subject Transactions”).  
Relevant ISDA Definitions means (i) the 1991 ISDA Definitions, (ii) the 1991 ISDA Definitions as supplemented by the 1998 Supplement to the 1991 ISDA Definitions and/or the 1998 ISDA Euro Definitions, or (iii) the 2000 ISDA Definitions.
- Duties of the Calculation Agent under Section 4.14(e) and (f) of the ISDA 2000 Definitions:  
“... (e) giving notice to the parties to the Swap Transaction on the Calculation Date for each Payment Date or for each Calculation Period, specifying (i) the Payment Date, (ii) the party or parties required to make the payment or payments then due, (iii) the amount or amounts of the payment or payments then due and (iv) reasonable details as to how the amount or amounts were determined; (f) if, after notice is given, there is a change in the number of days in the relevant Calculation Period and the amount or amounts of the payment or payments due for that Payment Date or for that Calculation Period, promptly giving the parties to the Swap Transaction notice of those changes, with reasonable details as to how those changes were determined;...”
- Rate reset or payment advice notices which contain information derived from standard published and readily-available market data sources (collectively referred to as “advice notices”).

### Discussion

- Advice notices are routinely sent by both parties to a transaction irrespective of which party is Calculation Agent. These notices are usually auto-generated from each party’s internal systems and dispatched by fax.
- Receipt and checking of advice notices is highly manual and, for some organisations, adds little value when the information is derived from market-standard sources held by both parties in the ordinary course of business.
- As alternatives to faxing and manual handling of advice notices, other methods of data transfer and communication are now available and used in the market.

### Options

In lieu of current practice using fax dispatch, parties may consider one or more of the following:

- Discontinue sending and receiving reset/advice notices. A standard letter for parties to consider to evidence their mutual agreement follows.
- Use of Swift MT362 through the Accord automatching facility. This is a dedicated message for rate fixings and payments. The message may be used for swaps, caps and floors.
- Use of internal portal facilities available from some market counterparties. Bi-lateral information contained within advice notices can be downloaded by subscribers for cross-referencing in their own systems.

This memorandum is published for information purposes and does not constitute guidance on the suitability or completeness of any alternatives discussed herein.

[STANDARD BI-LATERAL LETTER]

[Counterparty Name]

[Address]

Dear Sirs,

Rate Reset and Payment Notices

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This letter sets out the agreement between us to cease with effect from [.....] (the “Commencement Date”) the requirement to send, receive or otherwise exchange rate reset and payment notices with respect to Subject Transactions. For this purpose, Subject Transactions means any Swap Transaction, which by its terms incorporates the Relevant ISDA Definitions to be entered into or otherwise existing between us from and including the Commencement Date. Relevant ISDA Definitions means (i) the 1991 ISDA Definitions, (ii) the 1991 ISDA Definitions as supplemented by the 1998 Supplement to the 1991 ISDA Definitions and/or the 1998 ISDA Euro Definitions, (iii) the 2000 ISDA Definitions, or (iv) the 2006 ISDA Definitions (each as published by the International Swap and Derivatives Association, Inc.) as incorporated in a Subject Transaction.

Both parties hereby waive the requirements of Section 4.14(e) and (f) of the Relevant ISDA Definitions requiring a Calculation Agent to give notice to parties in relation to a Payment Date of the amount or amounts of payments then due and reasonable details as to how these amounts were determined. Nothing in this letter shall be deemed to waive or amend other duties of the Calculation Agent under any other sub-clause of Section 4.14 (except as provided herein) which shall continue in full force and effect, or to amend any Confirmation or the terms of any Subject Transaction except as otherwise stated herein. Nothing in this letter shall be deemed to prohibit or preclude a party or the Calculation Agent from providing the notices described under Section 4.14(e) and (f) of the Relevant ISDA Definitions.

In the event of disagreement between the parties in relation to an amount or amounts due on any Payment Date under a Subject Transaction, either party may require the Calculation Agent to provide promptly information under Section 4.14(e) and (f) to allow the parties to verify rates set and calculations made in respect of such Payment Date.

In consideration of the mutual premises contained herein, this letter constitutes an amendment to the Confirmations exchanged between us for each Subject Transaction, and shall be read as a supplement to each such Confirmation in relation to any such Subject Transaction. Capitalised terms not otherwise defined in this letter shall have the meanings given to them in the relevant Confirmation.

Yours sincerely,  
For and on behalf of  
[.....]

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Authorised Signatory

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Authorised Signatory

Accepted and agreed:

For and on behalf of  
[.....]

\_\_\_\_\_  
Authorised Signatory

\_\_\_\_\_  
Authorised Signatory

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