

ISDA Market Practice Guidance for rebasing of the Índice de Precios de Consumo

April 12, 2022

The International Swaps and Derivatives Association, Inc. (“ISDA”) announces the following guidance for parties to inflation derivative transactions that are affected by the rebasing of the Índice de Precios de Consumo (“SPIPC”) as of January 2022.

ISDA is issuing this guidance in the interest of mitigating market risk and the promotion of orderly valuation and settlement of positions by market participants. Parties are not obliged to follow the guidance set forth below and may choose alternate means of addressing the event. Capitalized terms used in this statement and not otherwise defined will have the meanings specified in the 2008 ISDA Inflation Derivatives Definitions (“Definitions”).

Please Note: This statement does not constitute legal, accounting or financial advice. Each participant in an affected transaction must satisfy itself that the methodology set out within this note for determining the rebasing key is appropriate for the transaction and has been properly applied in the context of the transaction to reflect the commercial intention of the participants.

Statement

On January 31, 2022, the Instituto Nacional de Estadística (Spanish Statistical Office) announced¹ that, starting from (and including) the release of the SPIPC index level for January 2022, SPIPC index levels have been rebased such that the reference year has changed from the previous 2016 = 100 to the new 2021 = 100 base.

Whenever the base is changed, a rebasing key (C_{RB}) is required to convert values from the old to the new base.

The Definitions provide that if the Calculation Agent for an affected transaction determines that an index has been rebased at any time, the index as so rebased will be used for the purposes of determining the level of the Index from the date of such rebasing. In the absence of a Related Bond, the Definitions require the Calculation Agent to make such adjustments so the levels of the Rebased Index levels reflect the same rate of inflation as the Index before it was rebased.

ISDA has consulted with market participants and received feedback that it would be useful to set out a detailed calculation of the rebasing key based upon the average of the SPIPC from 2021 expressed in the new 2021 = 100 base divided by the average of the SPIPC from 2021 expressed in the previous 2016 = 100 base. This calculation is set out below.

¹ https://www.ine.es/en/prensa/ipc_base_2021_en.pdf

$$C_{RB} = \frac{IR_{2021\text{mean}}^{base2021}}{IR_{2021\text{mean}}^{base2016}}$$

Where:

$IR_{2021\text{mean}}^{base2021}$ is the mean of the 2021 SPIPC levels expressed in the 2021 = 100 base;

and

$IR_{2021\text{mean}}^{base2016}$ is the mean of the 2021 SPIPC levels expressed in the 2016 = 100 base.

Therefore, using the data specified in Table 1, the rebasing key is:

$$C_{RB} = \frac{100.0000833333}{107.2705833333} = 0.9322227980 \text{ (rounded to ten decimal places)}$$

With the rebasing key, it is possible to rebase from 2016 to 2021 = 100 any daily inflation reference ($IR_{d,m}$):

$$IR_{d,m}^{base2021} = IR_{d,m}^{base2016} \times C_{RB}$$

As an example, the inflation reference for September 2021 expressed in the new 2021 =100 base is as follows (it was 107.887 in the old 2016 = 100 base):

$$107.887 \times 0.9322227980 = 100.5747210078 \text{ (rounded to ten decimal places)}$$

Table 1

2021 SPIPC levels at the 2016=100 base and the 2021=100 base and the arithmetic mean of such 2021 SPIPC levels at each base (rounded to 10 decimal places):

Month	2016=100	2021=100
Jan-21	104.678	97.583
Feb-21	104.061	97.008
Mar-21	105.070	97.949
Apr-21	106.311	99.105
May-21	106.811	99.572
Jun-21	107.320	100.046
Jul-21	106.511	99.292
Aug-21	106.995	99.743
Sep-21	107.887	100.575
Oct-21	109.871	102.425
Nov-21	110.208	102.738
Dec-21	111.524	103.965
<i>Arithmetic mean</i>	<i>107.2705833333</i>	<i>100.0000833333</i>