

ISDA Operations Committee - Operations Credit Derivatives Working Group

Best Practice Statement

Deemed Trade Fee and Called/ Matured or Exchanged Bond Best Practices

Discussions in the ISDA credit derivatives operations working group have led to consensus between market participants on deemed trade fees and called, matured or exchanged bonds in case of novations¹.

Deemed Trade Fee

The Effective date of the deemed trade should be T+1 of the failed novation as per the ISDA novation protocol. The field "first Payment Period Accrual Start Date" in DTCC allows decoupling the accruals from the Effective Date and effectively allows for an accrual start date in the past (choosing the later of the last roll date or effective date of the original trade (with an exception if there was a first long coupon as "first Payment Period Accrual Start Date"))

For the fee itself, cash flows and upfront fee are kept identical to the failed novation fees and cash flows. In practice this means that the upfront fee for the deemed trade includes both a MtM component and an accrual component. The accrual component is the same as the accrual component on the failed novation and can be replicated through the "first Payment Period Accrual Start Date".

An example:

Effective Date: May 12, 2007
Sovereign – 6 Months settlement (May 20 and Nov 20)
Notional amount: 50 million
Original spread: 57 bp
Failed Novation: September 19, 2007
Accrued: 103,708.33
MtM: -247,827.1

Novation fee would have been -144,118.77

The deemed trade should be booked with:

Effective Date: September 20, 2007

¹ Includes prime brokerage and changes from Red to Red Preferred

Capitalised terms have the meaning given to them in the relevant ISDA definitional booklet
The precise documentation of each Transaction remains the responsibility of the parties concerned. ISDA assumes no responsibility for any use to which this Best Practice Statement may be put.
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.

First Payment Period Accrual Start Date: May 12, 2007
Upfront fee: -144,118.77

Accrual exchanged on next roll: November 20, 2007: 151,999

Called, Matured or Exchanged Bonds

Consensus is to keep the originally Confirmed ISIN unless otherwise agreed between the Transferee and Remaining Party at the time of Novation consent.

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