

November 25, 2025

Market Practice Note

Determining Initial Reference Index for New Trades referencing CPI-U

Purpose

The purpose of this Market Practice Note (“MPN”) is to recommend a specific methodology that market participants could elect to use for the purposes of determining the Initial Reference Index for certain inflation derivative transactions given that the Bureau of Labor Statistics (“BLS”) has confirmed it will not publish the October 2025 level (the “**October Level**”) of the USA – Non-revised index of Consumer Prices for All Urban Consumers (CPI-U) before seasonal adjustment (“CPI-U”). This MPN applies to inflation derivative transactions (“**New Trades**”):

- (i) that incorporate the **2008 ISDA Inflation Derivatives Definitions** (the “**Inflation Definitions**”);
- (ii) whose terms specify an absolute number as the Initial Reference Index (rather than a methodology by which such number can be determined), where the determination of such absolute number would make use of (or, but for a delay in or lack of publication, would have otherwise made use of) the October Level; and
- (iii) that have a Trade Date of November 28, 2025 or later.

Please Note: This MPN does not constitute legal, accounting, regulatory, financial or any other professional advice. This MPN recommends a specific approach to the determination of an alternative to the October Level for the purposes of calculating the Initial Reference Index for New Trades referencing CPI-U given that the October Level will not be officially published. That recommendation has been discussed within the following ISDA working groups: the ISDA Inflation Swap Market Practice Subgroup; ISDA Interest Rates Steering Committee; ISDA Interest Rate Definitions Working Group; ISDA Interest Rates Legal Group; and ISDA Interest Rates Market Infrastructure Group (the “Working Groups”) and seeks to achieve alignment amongst market participants to increase transparency, promote certainty, reduce confusion and prevent additional operational burden. However, this MPN is not meant to be binding in any way and, as with all market information and guidance that ISDA disseminates, parties are free to choose to adopt an alternative approach. This MPN is not intended to impact parties’ contractual rights or amend the terms of any existing contract.

Capitalized terms used in this guidance and not otherwise defined or described have the meanings given to them in the Inflation Definitions.

Background

In light of the U.S. government shutdown (which has since ended) and the resultant lack of survey data for the October 2025 reference period, BLS announced that the October Level would not be published.¹

The standard confirmation templates for New Trades contemplate that the parties will have agreed an Initial Reference Index at the point of trading. Feedback from the Working Groups suggest that this is typically specified as an absolute number, the determination of which would make use of (or, but for the delay or lack of publication, would have made use of) the relevant level of the CPI-U.² The October Level will be relevant for calculating the Initial Reference Index for New Trades.

ISDA members have expressed uncertainty as to what methodology to apply to determine an alternative to the October Level for the purposes of calculating the Initial Reference Index for New Trades, given that the October Level will not be published by BLS.

Where CPI-U inflation derivatives specify a Related Bond or have Fallback Bond applicable, Treasury Inflation-Protected Securities (“**TIPS**”) are typically specified or constitute the population of CPI-U linked government bonds from which the Calculation Agent would select a Fallback Bond. TIPS provide a methodology for determining a fallback index level if the CPI-U for a particular month has not been reported by the last day of the following month. This fallback methodology (the “**TIPS Fallback Methodology**”) is set out in paragraph 4(iv) (*Index Contingencies*) of Section I.B (*Treasury Inflation-Protected Securities*) of Appendix B of Part 356 of Title 31 of the Code of Federal Regulations (the “**Treasury Guidance**”). The Treasury Guidance can be found [here](#) (see page 416-417).

Commentary

The background set out above has been discussed in the Working Groups. Some participants from those Working Groups have also provided feedback in writing. It was noted in those discussions and the related written feedback that:

- having inconsistent methodologies for determining an alternative to the October Level for the purposes of calculating the Initial Reference Index for New Trades would adversely impact price transparency and certainty in the inflation derivatives market, necessitate the construction of multiple CPI curves, create substantial operational hurdles and impact the functionality and liquidity of the inflation market;
- notwithstanding that, in the context of determining a Substitute Index Level for the purposes of calculating the amount to be paid on the Payment Date of an Index Transaction, there exists a difference in approach between cleared and uncleared derivatives markets in

¹ <https://www.bls.gov/bls/2025-lapse-revised-release-dates.htm>

² Although Section 2.1 (*Delay of Publication*) of the Inflation Definitions sets out a methodology to determine a Substitute Index Level, if the level of an index for a Reference Month which is relevant to the calculation of a payment under an Index Transaction has not been published or announced at least five Business Days prior to the next payment date, these provisions would not apply in respect of the October Level under New Trades, given that an absolute number would be specified as the Initial Reference Index as at the Trade Date.

relation to the application of the provisions set out in Section 2.1 (*Delay of Publication*) of the Inflation Definitions that could result in different fallback methodologies applying³, it would be operationally burdensome, and may cause confusion in the market, to use different methodologies to determine an alternative to the October Level for the purposes of calculating the Initial Reference Index; and

- any of the identified possible approaches for determining an alternative to the October Level for the purposes of calculating the Initial Reference Index for New Trades would require work to overcome technical and other issues in a very short period regardless of which approach was recommended. The consensus of the Working Groups was to nevertheless seek to adopt a single methodology that aligned the derivatives market to the cash market in the interests of promoting transparency and certainty.

As such, the Working Groups considered that a recommendation of the kind set out in this MPN would be beneficial to market participants.

Although adoption of the recommendation in this MPN is voluntary, it is thought that its broad acceptance as standard market practice will avoid operational and commercial disruption of the kind outlined above and therefore promote the safe and efficient operation of the markets.

Recommendation

It is recommended that, given that the October Level will not be officially published by BLS, the parties to a New Trade should use the TIPS Fallback Methodology to determine an alternative to the October Level for the purposes of calculating the Initial Reference Index for that New Trade.

When applying the TIPS Fallback Methodology, the alternative to the October Level should be rounded to the nearest three decimal places. Although the TIPS Fallback Methodology does not specify a rounding convention, this is consistent with the rounding convention applied to official publications of CPI-U levels.

As such, if parties choose to follow the recommendation in this MPN, the alternative to the October Level would be 325.604⁴.

For the avoidance of doubt, the recommendation in this MPN does not apply to the determination of any values, including the determination of any other CPI-U level (or alternative thereto) relevant

³ Generally, in the uncleared derivatives market, either a Related Bond is specified or “Fallback Bond: Not applicable” is not specified, whereas in the cleared derivatives market, no Related Bond is specified and “Fallback Bond: Not applicable” is specified. See <https://www.isda.org/2025/11/07/isda-guidance-delayed-cpi-u-due-to-government-shutdown/> for further information.

⁴ The September 2024 level of the CPI-U is 315.301. The September 2025 level of the CPI-U is 324.800. Applying the TIPS Fallback Methodology, the (unrounded) alternative to the October Level would therefore be:

$$324.800 \times \left[\frac{324.800}{315.301} \right]^{1/12} = 325.604383692703$$

Applying the rounding convention recommended above, the alternative to the October Level would therefore be 325.604.

to the calculation of a payment, other than the alternative to the October Level for the purposes of calculating the Initial Reference Index for New Trades.