

31 January 2020 (updated on 3 February 2020)

Closed Days Guidance – 1998 FX and Currency Option Definitions

2020 Chinese Lunar New Year Holiday Extension

The International Swaps and Derivatives Association, Inc. (“ISDA”) announces the following guidance for parties to over-the-counter derivative transactions that are affected by the extension to the holiday period described below.

The General Office of the State Council announced on Monday 27 January 2020 that the Lunar New Year holiday, which was originally scheduled to run from Friday 24 January 2020 to Thursday 30 January 2020 (inclusive), will now be extended to Sunday 2 February 2020 (inclusive). The announcement can be found [here](#).

As a consequence, it is ISDA’s understanding that the financial markets under the regulatory supervision of the People’s Bank of China¹ (including the interbank lending market, interbank bond market, China foreign exchange trading system, gold market and commercial paper market) and commercial banks in the People’s Republic of China (excluding Hong Kong, Macau and Taiwan) (“Mainland China”) are expected to remain closed (including for dealings in foreign exchange and foreign currency deposits) until Sunday 2 February 2020 (inclusive).

ISDA is issuing this guidance in the interest of mitigating market risk and the promotion of orderly and efficient valuation and settlement of positions by market participants. This guidance illustrates the consequences of the market closure event based on the default provisions described in the main definitional booklet. This guidance does not provide views on conventions or consequences, which parties may have bilaterally agreed, that deviate from such default provisions, nor does it cover transactions which are not subject to the definitional booklet and for which no bilateral agreement has been reached regarding the subject matter of this guidance. This guidance is not legal advice and market participants should consult their legal advisors as appropriate. ISDA does not assume any responsibility for this guidance and it is not intended to set a precedent. Parties are not obliged to follow this guidance and may choose alternate means of addressing the aforementioned event. In addition, firms should consider contacting their counterparties in advance of Friday 31 January 2020 to discuss the consequences for their transactions.

Please note that ISDA has not included within the scope of this guidance any documentation or templates published solely by the Emerging Markets Trade Association (EMTA) (“EMTA Templates”). This guidance also does not contemplate the use of any ISDA definitional booklets (or provisions thereof) in conjunction with the EMTA Templates. EMTA has published a Guidance

¹ <http://m.safe.gov.cn/safe/2020/0128/15267.html>

Note² which summarises the implications of the extension to the Chinese Lunar New Year holiday under the current recommended “EMTA Template Terms for CNY/USD Non-Deliverable FX Forward and Currency Options Transactions”.

For cleared transactions and transactions executed on electronic confirmation platforms, market participants should refer to the contractual terms of the applicable clearing house or confirmation platform, as applicable.

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² The EMTA Guidance Note on Business Day Adjustments for CNY/USD Non-Deliverable FX Transactions Under the EMTA Template Terms was published on 29 January 2020.

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Guidance

1 1998 FX and Currency Option Definitions

It is ISDA's understanding that, as a consequence of the extension to the Chinese Lunar New Year holiday, commercial banks in Beijing will now also be closed and will not settle payments on Friday 31 January 2020 (the "**Relevant Date**"). ISDA is recommending the below for FX Transactions and Currency Option Transactions that are subject to the 1998 FX and Currency Option Definitions ("**FX Definitions**").

However, if the parties have executed Non-Deliverable Swap Transactions on terms which incorporate the "Revised Non-Deliverable Swap Transaction Standard Terms Supplement" published by ISDA on 14 March 2017, the adjustment and disruption mechanics set out therein will prevail over those of the FX Definitions detailed below. For further information and guidance in respect of transactions documented pursuant to that NDS Standard Terms Supplement, please refer to the "Closed Days Guidance – 2006 Definitions; 2020 Chinese Lunar New Year Holiday Extension".

1.1 *Premium Payment Date*

The Relevant Date should not be treated as a Business Day for the purposes of payment on the Premium Payment Date (where Beijing is a relevant financial centre) and the relevant Business Day Convention should apply. In the absence of a specified Business Day Convention in the Confirmation, the Following Business Day Convention will apply.

1.2 *Settlement Date*

Settlement in respect of Deliverable Chinese Renminbi ("CNY") Transactions

For the purposes of the Settlement Date, the Relevant Date should not be treated as a Business Day where Beijing is a relevant financial center and should be adjusted in accordance with the Following Business Day Convention (unless another Business Day Convention is specified in the Confirmation).

Accordingly, if parties have executed Deliverable CNY Transactions where Beijing is typically specified as a financial center for settlement, the Settlement Date which originally falls on the Relevant Date will be postponed and adjusted to the following Business Day which is expected to be Monday 3 February 2020 (unless another Business Day Convention is specified in the Confirmation).

Settlement in respect of Offshore Deliverable Chinese Renminbi ("CNH") Transactions

If parties have executed offshore Deliverable CNH Transactions where Beijing is typically specified as a financial centre for settlement, similarly, the Settlement Date which originally falls on the Relevant Date will be postponed and adjusted to the following Business Day which is expected to be Monday 3 February 2020 (unless another Business Day Convention is specified in the Confirmation).

In the case of offshore Deliverable CNH Transactions, ISDA notes that parties may have also incorporated the "Additional Disruption Event Provisions for an Offshore Deliverable CNY

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Transaction” published by ISDA on 14 October 2011, as amended and restated on 28 January 2014, (the “**Additional Provisions**”). However, ISDA does not expect any CNY Disruption Event under the Additional Provisions to occur as a result of the closures on the Relevant Date. This is on the basis that the CNY Disruption Events are only triggered by illiquidity, inconvertibility or non-transferability of CNY in offshore markets such as Hong Kong, Singapore and Taipei, which ISDA understands will not be affected by the closures in Mainland China on the Relevant Date.

Notwithstanding that the Settlement Date which originally falls on the Relevant Date will be postponed and adjusted to Monday 3 February 2020 as aforesaid, the parties are free to agree mutually to settle on the Relevant Date (or any other date).

1.3 Valuation Date

Valuation in respect of Non-Deliverable CNY FX and Currency Option Transactions

Where parties have entered into Non-Deliverable CNY FX Transactions and Currency Option Transactions, ISDA notes that these Transactions usually incorporate the relevant recommended EMTA Templates, more specifically the EMTA Template Terms for CNY/USD Non-Deliverable FX Forward and Currency Option Transactions. As highlighted above, EMTA has published a Guidance Note which summarises the implications of the extension to the Chinese Lunar New Year holiday under such current EMTA Template.

Valuation in respect of Deliverable CNY Currency Option Transactions that are automatically exercised

Where parties have entered into Deliverable CNY Currency Option Transactions which are subject to automatic exercise, for the purposes of the Valuation Date (and where Beijing is typically specified as a relevant financial centre), the Valuation Date which originally falls on the Relevant Date will (unless another Business Day Convention is specified in the Confirmation) be subject to the Preceding Business Day Convention, in which event the Valuation Date will be brought forward to Thursday, 23rd January 2020.

1.4 Averaging Date

In the case of Deliverable Currency Option Transactions, unless parties otherwise agree, for the purposes of an Averaging Date (and where Beijing is typically specified as a relevant financial centre) and in respect of a Spot Rate that is determined on that Averaging Date in accordance with the Settlement Rate Option, the Averaging Date falling on the Relevant Date will not be a Business Day and the applicable Business Day Convention will apply. If one is not specified in the Confirmation, this will be the Preceding Business Day Convention.

1.5 Exercise of Currency Options Transactions

Where Beijing is typically specified as a relevant financial center for the exercise of Currency Option Transactions, the Relevant Date will not be a Business Day for the purposes of the exercise of a Currency Option Transaction on the Expiration Date, a Specified Exercise Date or any day during the Exercise Period. The relevant day will therefore adjust in accordance with the Business Day Convention specified by the parties in their Confirmation or, in the absence of a specified Business

Convention, in accordance with the Business Day Convention set out for the relevant day in the FX Definitions. The default Business Day Convention/adjustment that applies pursuant to the FX Definitions is as follows:

- Expiration Date and Specified Exercise Date: Following Business Day Convention
- A day during the Exercise Period (American Options): Exercise on the Relevant Date will be deemed as exercise on the next valid Business Day during the Exercise Period.