

24 April 2020

Closed Days Template Guidance – Equity Derivatives

UK early May 2020 bank holiday change

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 UK early May 2020 bank holiday change, as described below.

On 7 June 2019 the UK Government announced (the “Announcement”) that the early May bank holiday in 2020 will move from Monday 4 May to Friday 8 May 2020 to mark the 75th anniversary of VE Day.¹

As a consequence, it is ISDA’s understanding that on 8 May 2020 the London Stock Exchange, the shares clearance and settlement systems in the UK and UK commercial banks are expected to be closed (including for dealings in foreign exchange and foreign currency deposits) and that Euronext London will also be closed for trading.²

ISDA understands that the London Stock Exchange updated their trading calendar in response to the Announcement on 10 June 2019.

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 above market closure event based on the default provisions described in the main definitional booklets and specified Master Confirmation Agreements. This guidance does not provide views on conventions or consequences, which parties may have bilaterally agreed, that deviate from such defaults. **This guidance is not legal advice and market participants should consult their legal advisors as appropriate.** Market participants should not rely on this guidance for any purpose but should review the contractual terms of each affected transaction in order to understand the effects of the events described above. 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 to discuss the consequences for their transactions.

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¹ <https://www.gov.uk/government/news/2020-may-bank-holiday-will-be-moved-to-mark-75th-anniversary-of-ve-day>

² Euronext London is the part of the broader Euronext trading platform that provides for trading in futures on UK underlyings. ISDA understands that on 8 May 2020 it will not be possible to trade single stock futures linked to UK underlyings on the Euronext trading platform and that this should be considered as a ‘closure’ of Euronext London on that day.

Guidance

1 2002 ISDA Equity Derivatives Definitions (the “2002 Equity Definitions”)³

1.1 *Exchange Business Days; Scheduled Trading Days*

4 May 2020

ISDA understands that the London Stock Exchange and Euronext London (the “**London Exchanges**”) will be open for trading on 4 May 2020 (the “**Original Bank Holiday**”) and therefore such date should be treated as an Exchange Business Day for those exchanges.

This guidance has been produced on the basis that 4 May 2020 is a Scheduled Trading Day when the London Exchanges are the Exchange and Related Exchange for a Transaction. This is consistent with the approach adopted in relation to previous guidance ISDA where the relevant announcement of a change in trading schedule has been made in advance of the relevant date. However, ISDA is aware that some market participants have interpreted ‘Scheduled Trading Day’ by reference to the schedule of an Exchange/Related Exchange as at the Trade Date of the relevant Transaction and may therefore consider 4 May 2020 to be a non-Scheduled Trading Day. Where parties adopt this approach to a Scheduled Trading Day then, for the purposes of a Transaction with a Trade Date prior to the Announcement Date, 4 May 2020 will not be a Scheduled Trading Day for the London Exchanges and the guidance set out in this document should be adjusted accordingly.

8 May 2020

ISDA understands that the London Stock Exchange and Euronext London will not be open for trading for their respective regular trading sessions⁴ on 8 May 2020 (the “**Rescheduled Bank Holiday**”) and therefore the Rescheduled Bank Holiday should not be treated as an Exchange Business Day for those exchanges.

The Announcement was made eleven months prior to the Rescheduled Bank Holiday. This guidance has therefore been produced on the basis that the closures of the London Exchanges are scheduled and that the Rescheduled Bank Holiday is therefore not a Scheduled Trading Day when either the Exchange or Related Exchange is one of the London Exchanges. This is consistent with the approach adopted in relation to previous guidance ISDA has issued in relation to market closure events. However, ISDA is aware that some market participants have interpreted ‘Scheduled Trading Day’ by reference to the schedule as at the Trade Date of the relevant Transaction and may therefore consider the Rescheduled Bank Holiday to be a Scheduled Trading Day when either the Exchange or Related Exchange is one of the London Exchanges. Where parties agree that the Rescheduled Bank Holiday constitutes a non-

³ This Section of the guidance covers Transactions documented under the 2002 Equity Definitions and also Transactions documented under the master confirmation agreements detailed below. It does not cover any additional supplements, master confirmations or standard terms used in conjunction with the 2002 Equity Definitions.

⁴ Euronext London is a part of the Euronext trading platform providing for trading in derivatives on UK underlyings. ISDA understands that on 8 May 2020 it will not be possible to trade derivatives instruments linked to UK underlyings on the Euronext trading platform and that this should be considered as a ‘closure’ of Euronext London for its regular trading session on that day.

scheduled closure, then the Rescheduled Bank Holiday should not be treated an Exchange Business Day but should be treated as a Scheduled Trading Day that is a Disrupted Day and the guidance set out in this document should be adjusted accordingly in accordance with the consequences for Disrupted Days set out in the 2002 Equity Definitions and, if relevant, in the applicable Master Confirmation Agreement.

1.2 *Exercise/expiration of Option Transactions*

4 May 2020

If a Commencement Date, Potential Exercise Date (Bermuda Option) or Expiration Date falls on the Original Bank Holiday, such Commencement Date, Potential Exercise Date or Expiration Date will occur on such date, unless the parties have agreed to treat the Original Bank Holiday as a non-Scheduled Trading Day (see above), in which case, such Commencement Date, Potential Exercise Date or Expiration Date should be moved to the next following Scheduled Trading Day (5 May 2020).

If the parties have agreed to treat the Original Bank Holiday as a non-Scheduled Trading Day, then if the Original Bank Holiday falls in the Exercise Period for an American Option and the Option Buyer purports to exercise the Option on the Original Bank Holiday, exercise will be deemed to take place on the next following Scheduled Trading Day (5 May 2020).

8 May 2020

If a Commencement Date, Potential Exercise Date (Bermuda Option) or Expiration Date falls on the Rescheduled Bank Holiday, such Commencement Date, Potential Exercise Date or Expiration Date should be moved to the next following Scheduled Trading Day (expected to be 11 May 2020). If the Rescheduled Bank Holiday falls in the Exercise Period for an American Option and the Option Buyer purports to exercise the Option on the Rescheduled Bank Holiday, exercise will be deemed to take place on the next following Scheduled Trading Day (expected to be 11 May 2020).

1.3 *Valuation of Options, Swaps and Forwards*

Valuation Date

4 May 2020

If a Valuation Date in respect of a Transaction falls on the Original Bank Holiday, such Valuation Date should take place on such date, unless the parties have agreed to treat the Original Bank Holiday as a non-Scheduled Trading Day, in which case the Valuation Date would be moved to the next following Scheduled Trading Day (5 May 2020).

8 May 2020

If a Valuation Date in respect of a Transaction falls on the Rescheduled Bank Holiday, such Valuation Date should be moved to the next following Scheduled Trading Day (which is expected to be 11 May 2020).

If Futures Price Valuation applies to an Index Transaction, and the Official Settlement Price is published on the Valuation Date, such day should be treated as the Valuation Date irrespective of whether such day is a Scheduled Trading Day.

Averaging Dates

4 May 2020

If an Averaging Date in respect of a Transaction falls on the Original Bank Holiday, such Averaging Date should take place on such date, unless the parties have agreed to treat the Original Bank Holiday as a non-Scheduled Trading Day, in which case the Averaging Date would be moved to the next following Scheduled Trading Day (5 May 2020).

8 May 2020

If an Averaging Date in respect of a Transaction falls on the Rescheduled Bank Holiday, such Averaging Date should be moved to the next following Scheduled Trading Day (which is expected to be 11 May 2020).

1.4 Payments

4 May 2020

It is ISDA's understanding that commercial banks and share clearance and settlement systems will be open on the Original Bank Holiday. Accordingly, the Original Bank Holiday will be a Currency Business Day and a Clearance System Business Day in London. Any payment in respect of a Cash Settlement Payment Date, Premium Payment Date, Dividend Payment Date, Prepayment Date, Initial Exchange Date or Final Exchange Date falling on the Original Bank Holiday should be made on that date. Any delivery in respect of a Settlement Date falling on the Original Bank Holiday should also be made on that date.

8 May 2020

It is ISDA's understanding that commercial banks and share clearance and settlement systems will not be open on the Rescheduled Bank Holiday. Accordingly, the Rescheduled Bank Holiday will not be a Currency Business Day or a Clearance System Business Day in London.

Each Cash Settlement Payment Date, Premium Payment Date, Dividend Payment Date or Prepayment Date that is specified in the Confirmation will be moved to the next following Currency Business Day for the relevant currency, expected to be 11 May 2020. Payments falling due on an Initial Exchange Date, Final Exchange Date or Prepayment Date (where the Prepayment Payment Date is not otherwise specified in the Confirmation) should move to the next following Currency Business Day for the relevant currency that is also an Exchange Business Day which is expected to be 11 May 2020.

Deliveries due on a Settlement Date falling on the Rescheduled Bank Holiday will be made on the next following Clearance System Business Day, expected to be 11 May 2020.

2 2007 European Variance Swap Master Confirmation Agreement and Revised 2007 European Variance Swap Master Confirmation Agreement⁵ (together, the “European Variance Swap MCAs”).

The following guidance is for Index Variance Swap Transactions and Share Variance Swap Transactions confirmed under the European Variance Swap MCAs.

2.1 Scheduled Trading Day

- In respect of Index Variance Swaps only, if “Multiple Exchange” applies, a Scheduled Trading Day is a day on which (i) the Index Sponsor is scheduled to publish the level of the Index and (ii) the Related Exchange is scheduled to be open for trading for its regular trading session. This guidance assumes that either,
 1. the Rescheduled Bank Holiday is not a day on which the Index Sponsor is scheduled to publish the level of the Index, or
 2. one of the London Exchanges is a Related Exchange for the relevant Transaction.
 (i.e., the guidance assumes that the Rescheduled Bank Holiday is not a Scheduled Trading Day for the purposes of the Multiple Exchange Index Annex because of either 1 or 2 above being satisfied).
- In respect of Share Variance Swaps under the Revised 2007 European Variance Swap MCA only, the guidance below assumes that one of the London Exchanges is the “Exchange” for the Transaction. If a London exchange is specified as a “Related Exchange” for the Transaction but no London exchange is an “Exchange”, then the Rescheduled Bank Holiday will continue to be a Scheduled Trading Day.⁶

2.2 N

“N” is defined in the European Variance Swap MCAs as *“The number specified as such in the relevant Transaction Supplement or, if not so specified, the number of days that, as of the Trade Date, are expected to be Scheduled Trading Days for the period from, but excluding, the Observation Start Date to, and including, the Scheduled Valuation Date”*.

Unless otherwise specified, if the Trade Date of such a Variance Swap Transaction is before the date on which the update performed by the London Stock Exchange took place (10 June 2019), N will not include the Original Bank Holiday but will include the Rescheduled Bank Holiday if such dates fall in the period from, but excluding, the Observation Start Date to, and including, the Scheduled Valuation Date.

Unless otherwise specified, if the Trade Date of such a Variance Swap Transaction is on or after the date on which the update performed by the London Stock Exchange took place (10 June 2019), N will include the Original Bank Holiday but will not include the Rescheduled

⁵ Including Annex IVS (*Index Variance Swap*) and the Multiple Exchange Index Annex, and Annex SVS (*Share Variance Swap*).

⁶ The Share Variance Swap General Terms Confirmation under the Revised 2007 European Variance Swap Master Confirmation Agreement provides that there shall be no Related Exchange for the purpose of the definition of Scheduled Trading Day.

Bank Holiday if they fall in the period from, but excluding, the Observation Start Date to, and including, the Scheduled Valuation Date.

2.3 Observation Days (other than the Valuation Date)

Observation Days are defined in the European Variance Swap MCAs as “*Each Scheduled Trading Day during the Observation Period, whether or not such day is a Disrupted Day. Section 6.6 [(or, if “Futures Price Valuation” is applicable, Sections 6.8(a) and 6.8(e))]⁷ of the Equity Definitions shall not be applicable to any Observation Day other than the Valuation Date, in which case P_t [(as defined below)] in respect of the Valuation Date shall be determined in accordance with the applicable Section.*”;

Observation Period is defined as “*the period from, but excluding, the Observation Start Date to, but excluding, the Observation End Date, and the Valuation Date*”. The Observation Start Date is the Trade Date (unless otherwise specified), and the Observation End Date is the Scheduled Valuation Date.

- 2.4** If a day during the Observation Period falls on the Rescheduled Bank Holiday it will not be an Observation Day. If a day during the Observation Period falls on the Original Bank Holiday it will be an Observation Day (unless parties have agreed to treat the Original Bank Holiday as a non-Scheduled Trading Day – see paragraph 1.1 (*Exchange Business Days; Scheduled Trading Days*) above).

2.5 Valuation Date

If the Observation End Date (i.e. the Valuation Date) falls on the Rescheduled Bank Holiday, the Valuation Date will be adjusted to the next Scheduled Trading Day.

If the parties have agreed to treat the Rescheduled Bank Holiday as a non-Scheduled Trading Day, the Observation End Date (i.e. the Valuation Date) will be adjusted in accordance with Section 6.6 of the 2002 Equity Definitions (i.e. it will move to the next following Scheduled Trading Day that is not a Disrupted Day) and P_t in respect of such Observation End Date will be determined on such adjusted Valuation Date.

If Futures Price Valuation is applicable and the Valuation Date falls on the Rescheduled Bank Holiday and the Official Settlement Price is not published on such date, the Valuation Date will be postponed and will be the first succeeding Scheduled Trading Day on which the Official Settlement Price is published (which is expected to be 11 May 2020).

2.6 Payment

The Cash Settlement Payment Date falls the specified number of Currency Business Days after the Valuation Date. If the Valuation Date falls on the Rescheduled Bank Holiday, the Cash Settlement Payment Date will be moved to two Currency Business Day after the adjusted Valuation Date (expected to be Monday 11 May 2020).

⁷ Applies to Index Variance Swaps only

3 2007 European Master Equity Derivatives Confirmation Agreement⁸

The guidance set out in paragraph 1 above should be equally applicable to Transaction documented under the 2007 European Master Equity Derivatives Confirmation Agreement (and the Annexes attached to it). However, in addition, the following points should be noted:

3.1 *Multiple Exchange Index Annex:* With respect to any Index Transaction, if the “Multiple Exchange Index Annex” applies, a Scheduled Trading Day is a day on which (i) the Index Sponsor is scheduled to publish the level of the Index and (ii) the Related Exchange is scheduled to be open for trading for its regular trading session. This guidance assumes that either,

1. the Rescheduled Bank Holiday is not a day on which the Index Sponsor is scheduled to publish the level of the Index, or
2. one of the London Exchanges is a Related Exchange for the relevant Transaction.

(i.e., the guidance assumes that the Rescheduled Bank Holiday is not a Scheduled Trading Day for the purposes of the Multiple Exchange Index Annex because of either 1 or 2 above being satisfied).

3.2 *Component Security Index Annex:* With respect to any Index Swap under Annex IS to which the Component Security Index Annex applies,⁹ a Scheduled Trading Day is a day on which the Index Sponsor is scheduled to publish the level of the Index. Accordingly, the guidance above in paragraph 1.3 (*Valuation of Options, Swaps and Forwards*) only applies if the Rescheduled Bank Holiday is not a day on which the Index Sponsor is scheduled to publish the level of the Index.

3.3 *Forward starting transactions:* In respect of an Index/Share Option Transaction or an Index Swap, where the Transaction is forward starting and a Strike Date is specified in the Transaction Supplement, if the Strike Date falls on the Rescheduled Bank Holiday and such day is not a Scheduled Trading Day (as to which, see paragraph 3.1 (*Multiple Exchange Index Annex*) and 3.2 (*Component Security Index Annex*) above in respect of Index Transactions) it should be moved to the next following Scheduled Trading Day (which is expected to be 11 May 2020).

3.4 *Cash Settlement Payment Date:*

- o In respect of an Index or Share Option Transaction, the Cash Settlement Payment Date falls two Currency Business Days after each Valuation Date and in respect of an Index Transaction, the specified number of Currency Business Days following the relevant Valuation Date. If a Valuation Date falls on the Rescheduled Bank Holiday, the Cash Settlement Payment Date will be moved to two, or the specified number (as applicable), Currency Business Days after the adjusted Valuation Date (the adjusted Valuation Date is expected to be Monday 11 May 2020).

⁸ Including Annex ISO (Cash/Physically -Settled Index/Share Option), Annex EFS (Cash-settled Equity Finance Share Swap), Annex IS (Cash-settled Index Swap) and the Multiple Exchange Index Annex.

⁹ The Component Security Index Annex applies by default unless disappplied in the Transaction Supplement.

- In respect of an Equity Finance Share Swap Transaction, the Cash Settlement Payment Date falls one Settlement Cycle after the Valuation Date (or if that date is not a Currency Business Day, the next Currency Business Day). If the Valuation Date falls on the Rescheduled Bank Holiday, the Cash Settlement Payment Date will be moved to one Settlement Cycle after the adjusted Valuation Date (the adjusted Valuation Date is expected to be Monday 11 May 2020).

4 2009 European Interdealer Master Equity Derivatives Confirmation Agreement¹⁰

The guidance set out in paragraph 1 above should be equally applicable to Transactions documented under the 2009 European Interdealer Master Equity Derivatives Confirmation Agreement (and the Annexes attached to it). However, in addition, the following points should be noted:

4.1 *Interdealer Index Swap (Annex IIS):*

- *Scheduled Trading Day:* In respect of any Index Swap under Annex IIS (Cash Settled Interdealer Index Swap) for which “Component Security Price” is not specified to apply, a Scheduled Trading Day is a day on which the Index Sponsor is scheduled to publish the level of the Index. Accordingly, the guidance above applies if the Rescheduled Bank Holiday is not a day on which the Index Sponsor is scheduled to publish the level of the Index.
- *Component Security Scheduled Trading Day:* In respect of any Index Swap under Annex IIS (Cash Settled Interdealer Index Swap) for which “Component Security Price” is specified to apply, a Scheduled Trading Day is determined individually for each Component Security based on the relevant Exchange for such Component Security. If some (but not all) of the Component Securities are listed on a London Exchange and the Valuation Date or (for forward starting transactions and in respect of the Initial Price), the Strike Date falls on the Rescheduled Bank Holiday, the Valuation Date for such Component Securities only will be postponed to the next Scheduled Trading Day for such Component Securities (expected to be 11 May 2020). For any Component Securities for which the relevant Exchange is not a London Exchange, the price for such Component Securities will be determined on the Valuation Date or (for forward starting transactions and in respect of the Initial Price) the Strike Date that falls on the Rescheduled Bank Holiday.

- 4.2 *Forward starting transactions:* Where the Transaction specifies “Forward Starting” in the Transaction Supplement for the Initial Price, the Strike Date shall be treated as a Valuation Date for the purposes of the Equity Definitions. Therefore, if the Strike Date falls on the Rescheduled Bank Holiday it should be moved to the next following Scheduled Trading Day (which is expected to be 11 May 2020).

¹⁰ Including Annex FVSS (Fair Value Share Swap General Terms Confirmation), Annex IIS (Index Swap General Terms Confirmation), and Annex SS, Share Swap General Terms Confirmation).

4.3 *Effective Date*: In respect of a Transaction under Annex FVSS (Cash-settled Fair Value Share Swap) or Annex IIS (Cash-settled Interdealer Index Swap), if the Strike Date is adjusted, the Effective Date may also be adjusted accordingly.

5 **2011 ISDA Equity Definitions – Index Volatility Swaps**

The following guidance is for equity derivative transactions confirmed under the Equity Matrix for Index Volatility Swaps (General Terms Confirmation, Definitions, and Terms Supplement) where the terms defined in such Equity Matrix are sourced from the 2011 ISDA Equity Derivatives Definitions (“Index Volatility Transactions”).

5.1 *Scheduled Trading Day*

For such Index Volatility Transactions, a Scheduled Trading Day is a day that is both a scheduled Exchange Business Day (determined as of the Trade Date) and a day on which the Index Sponsor is scheduled to publish a value for the Index (determined as of the Trade Date). As such, where the relevant Exchange is the London Stock Exchange if the Trade Date of the relevant Transaction is before the date on which the London Stock Exchange updated their trading calendar (10 June 2019), the Rescheduled Bank Holiday should still be a Scheduled Trading Day.