1998 FX and Currency Option Definitions

Philippines Market Closures Guidance

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 closure of the markets and systems described below.

On March 16, 2020, in light of the escalating cases of the coronavirus disease (COVID-19), President Rodrigo Duterte of the Philippines announced in a televised address an enhanced community quarantine covering the entirety of Luzon, effective 12:00 a.m. March 17, 2020 and expiring 12:00 a.m. April 13, 2020.

This resulted in:

(i) *the announcement on March 16, 2020 by the Philippine Stock Exchange, Inc.("**PSE**") that no trading at PSE and no clearing and settlement at the Securities Clearing Corporation of the Philippines ("**SCCP**") would take place, in each case, starting, March 17, 2020 until further notice. The announcement can be found here:* *https://www.pse.com.ph/resource/memos/2020/CN_2020-0021.pdf.*

(ii) *the announcement on March 17, 2020 by the PDS Group that PDS Fixed Income Trading, Clearing and Settlement, Payment and Transfer Operations (PDDTS and RTS), as well as Depository Operations were to be suspended from 17 March 2020, until further notice. The announcement can be found here:* *https://www.pds.com.ph/index.html%3Fp=73748.html*

(iii) *the announcement on March 16, 2020 by the Bankers Association of the Philippines that there would be no trading of the BAP Spot USD/PHP on March 17, 2020.*

Subsequently:

(a) *On March 17, 2020, PDS Group published a further announcement that all PDS Operations would recommence on March 18, 2020 with the exception of the Equity Depository System which it stated will resume operations on Thursday, 19 March 2020. The announcement can be found here:* *https://www.pds.com.ph/index.html%3Fcat=12.html*

(b) *On March 17, 2020, PSE published a further announcement that trading at PSE and clearing and settlement at the SCCP will resume on Thursday, March 19, 2020. The announcement can be found here:* *https://www.pse.com.ph/resource/memos/2020/CN_2020-0025.pdf*

(c) *On March 17, 2020, the Bankers Association of the Philippines published a further announcement that the BAP Spot USD/PHP market resumes on March 18, 2020. The announcement can be found here:* *https://bap.org.ph/media/bap-fx-usd-php-spot-market-resumes-on-march-18-2020/*

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 defaults, 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. Where this guidance assumes the reopening of markets as anticipated in the announcements detailed above, market participants should be aware that the guidance may change to the extent that the markets do not reopen as anticipated. **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.

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 Note[1] which summarises the implications of the closure of markets and systems described above. under the current recommended "EMTA and SFEMC Template Terms for PHP/USD Non-Deliverable FX and Currency Option Transactions (April 1, 2018)".

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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[1]   The EMTA Guidance Note on PHP/USD Non-Deliverable FX and Currency Option Transactions under the EMTA and SFEMC Template Terms

1 1998 FX and Currency Option Definitions

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**") in respect of the markets closures on Tuesday 17 March 2020 (the "**Relevant Date**").

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 "2006 ISDA Definitions; Philippines Market Closures Guidance".

1.1 *Settlement Date; Premium Payment Date*

It is ISDA's understanding that commercial banks in Manila were exempt from the enhanced community quarantine being implemented in Luzon and were theoretically therefore open for business on 17 March 2020, which suggests that 17 March 2020 should be treated as a Business Day for the purposes of settlement and payment on the Settlement Date and Premium Payment Date. However, ISDA has been made aware that as a matter of market practice, when foreign exchange markets are closed, market participants do not effect delivery of PHP. Furthermore, ISDA understands that it was not practical for many firms to effect delivery of PHP on 17 March 2020. In light of this, it seems reasonable for 17 March 2020 to be considered as a non-Business Day with respect to the definitions of Settlement Date and Premium Payment Date under the FX Definitions.

Some market participants may have successfully made payment in respect of the Settlement Date/Premium Payment Date on 17th March. Where this is the case, it would be illogical for the parties to treat such day as a non-Business Day retrospectively and in this case parties could reasonably continue to treat 17th March as a Business Day for the purposes of the Settlement Date/Premium Payment Date and any payments made on such day.

1.2 *Valuation Date*

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

Where parties have entered into Non-Deliverable PHP FX Transactions and Currency Option Transactions, ISDA notes that these Transactions are usually confirmed in accordance with relevant recommended EMTA Templates, more specifically the EMTA and SFEMC Template Terms for PHP/USD Non-Deliverable FX and Currency Option Transactions (April 1, 2018). As highlighted above, EMTA has published a Guidance Note which summarises the implications of the Philippines market closures under such current EMTA Template.

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

Where parties have entered into Deliverable PHP Currency Option Transactions which are subject to automatic exercise, for the purposes of the Valuation Date (and where Manila 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 Monday, 16 March 2020.

1.3   *Averaging Date*

In the case of Deliverable Currency Option Transactions, unless parties otherwise agree, for the purposes of an Averaging Date (and where Manila 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.

1.4   *Exercise of Currency Options Transactions*

Where Manila is specified as a relevant financial center for the exercise of Deliverable 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.