Best Practice Statement
Linear Interpolation

Background: The ISDA Operations Interest Rates Products Working Group (IRP Ops WG) became concerned about the high number of mismatches on the calculation of linear interpolation. The Working Group sought guidance as to how to determine the number of days corresponding to relevant Designated Maturities using the relevant Business Days and Business Days Convention. Following a conference call on the 22nd October 2009 the following was agreed as market practice:

Best practice guideline; Determination of number of days corresponding to Designated Maturities in Linear Interpolation

The definition of Linear Interpolation in the 2006 ISDA Definitions (Section 8.3) does not provide specific guidance on how to determine the number of days corresponding to the Designated Maturities of the known rates used in the linear interpolation formula. When one or both of the Designated Maturity dates are not good business days, it is not clear which Business Days or Business Day Convention should be used to adjust the Designated Maturity dates in order to determine number of days.

ISDA recommends the following as representing current market practice regarding the determination of number of days corresponding to Designated Maturities:

- If the confirmation of a transaction specifies Business Days, then apply the Business Days specified in the confirmation applicable to that floating leg in order to determine the number of days corresponding to the relevant Designated Maturity.
- If the confirmation does not specify Business Days, use Business Days as specified in Section 1.4 and related Section 1.5 and 1.6 of the 2006 ISDA Definitions.
- If the confirmation of a transaction specifies a Business Day Convention that is applicable to Period End Dates, then apply the Business Day Convention specified in the confirmation applicable to that floating leg in order to determine the number of days corresponding to the relevant Designated Maturity, further if Period End Dates are
unadjusted, that is, the confirmation specifies No Adjustment, then do not adjust the number of days.

- If the confirmation does not specify a Business Day Convention applicable to the Period End Dates, use the Business Day Convention specified in the confirmation applicable to the relevant floating leg Payment Dates
- If the confirmation does not specify a Business Day Convention, use the Modified Following Business Day Convention as provided in Sections 4.9 and 4.10 of the 2006 ISDA Definitions.

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**Please Note:** This Best Practice Statement does not constitute legal, accounting or financial advice. Each participant in a transaction must satisfy itself that the recommendation is appropriate for the transaction and has been properly applied in the context of the transaction to reflect the commercial intention of the participants.