
Market Practice Note

Effective Dates for SOFR swaps using different Payment/Reset Date calendars

Purpose

The purpose of this Market Practice Note (“MPN”) is to recommend an approach to the calendars applicable to the determination of Effective Dates for SOFR swaps.¹

Please Note: This MPN does not constitute legal, accounting, regulatory, financial or any other professional advice. This MPN recommends an approach to the determination of Effective Dates for SOFR swaps. That recommendation has been discussed within various ISDA working groups and seeks to achieve alignment amongst market participants to increase certainty, reduce confusion and prevent trading breaks. 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.

Background

SOFR swaps

In the 2021 ISDA Interest Rate Derivatives Definitions (the “**2021 Definitions**”) and the 2006 ISDA Definitions (the “**2006 Definitions**”; and together with the 2021 Definitions, the “**ISDA Definitions**”), the fixing calendar for SOFR Floating Rate Options² is based on the SIFMA calendar (U.S. Government Securities Business Days). However, it is common practice for SOFR swaps to use the New York Business Day³ calendar for payments.

The ISDA Definitions do not set out how the Effective Date (the first date of the term of the transaction or ‘spot date’) is determined – it is a date that needs to be specified in the Confirmation and is consequently agreed among the counterparties and trading venues based on market convention. The Effective Date is generally not subject to adjustment in accordance with any Business Day Convention and this is also the default position in the ISDA Definitions. Market convention for SOFR swaps is for the Effective Date to be the day that is two business days following the Trade Date.

¹ This MPN uses “SOFR swaps” to describe swaps with SOFR (the Secured Overnight Financing Rate) as a floating leg, including primarily OIS and fixed versus float swaps. Note that additional analysis may be required when determining the Effective Date for other swaps with SOFR as a floating leg (e.g., cross-currency, basis) but the recommendation could be used when analyzing the SOFR component of such swaps.

² USD-SOFR-COMPOUND (in the 2006 Definitions) USD-SOFR-OIS Compound (in the 2021 Definitions); USD-SOFR; USD-SOFR Average 30D; USD-SOFR Average 90D; USD-SOFR Average 180D; USD-SOFR Compounded Index.

³ This MPN uses New York “Business Day” as Business Day is the term used in the 2021 Definitions (when New York is the relevant financial center, the 2021 Definitions Floating Rate Matrix refers to a “New York City Business Day”). The relevant Floating Rate Options in the 2006 Definitions use New York City “Banking Day”.

Historically, there has been no convention as to whether those two business days should be New York Business Days, U.S. Government Securities Business Days or both⁴. For the most part, the two types of business day coincide and so, on most days, this has not caused market participants problems. ISDA understands, however, that there was confusion amongst market participants in relation to SOFR swaps with a Trade Date of 22 December 2021 because Friday, 24 December 2021 was a New York Business Day but not a U.S. Government Securities Business Day⁵. Some trading venues set the Effective Date for such SOFR swaps as 24 December (being two New York Business Days following the Trade Date), while other trading venues set the Effective Date as 27 December 2021 (being two U.S. Government Securities Business Days following the Trade Date). This led to unintended bifurcation and trade reconciliation breaks in the market. Furthermore, a similar discrepancy will occur on 15 April 2022, which will be a New York Business Day but not a U.S. Government Securities Business Day⁶.

Commentary

The background set out above and the options for preventing similar confusion from arising in the future has been discussed in the following ISDA working groups: ISDA Americas and Europe Benchmark Working Group, ISDA APAC Benchmark Working Group, ISDA Interest Rates Steering Committee and ISDA JPY Benchmark Working Group. Some participants from those working groups have also provided feedback in writing. It was noted in those discussions and the related written feedback 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 confusion of the kind outlined above and therefore promote the safe and efficient operation of the markets.

Recommendation

It is recommended that market participants, including trading venues, should refer to both U.S. Government Securities Business Days⁷ and New York Business Days⁸ when determining the Effective Date for a SOFR swap. The Effective Date for a SOFR swap will therefore only occur on a day that is both a good U.S. Government Securities Business Day and a good New York Business Day. This means that the ‘spot date’ for a SOFR swap will be the day that is two U.S. Government Securities Business Days and New York Business Days following the Trade Date (i.e. the second day that is both a U.S. Government Securities Business Day and a New York Business Day)⁹.

⁴ Note that, in most cases the U.S. Government Securities Business Day calendar is a subset of the New York Business Day calendar, therefore in most cases applying both U.S. Government Securities Business Days and New York Business Days will be equivalent to applying only U.S. Government Securities Business Days. However, differences could arise, for example if an event such as an extreme weather event results in banks being closed for business in New York if the date(s) of that closure remain U.S. Government Securities Business Days.

⁵ See [here](#).

⁶ See [here](#).

⁷ See [here](#).

⁸ See [here](#).

⁹ Under this recommendation, SOFR swaps with a Trade Date of 22 December 2021 would have had an Effective Date of 27 December 2021, and SOFR swaps with a Trade Date of 23 December 2021 would have had an Effective Date of

Under this recommendation, SOFR swaps with a Trade Date of Wednesday, 13 April 2022 will have an Effective Date of Monday, 18 April 2022 and SOFR swaps with a Trade Date of Thursday, 14 April 2022 will have an Effective Date of Tuesday, 19 April 2022.

28 December 2021.