

ISDA Market Practice Guidance for rebasing of the German Consumer Price Index

March 21, 2019

The International Swaps and Derivatives Association, Inc. (“ISDA”) announces the following guidance for parties to inflation derivative transactions that are affected by the rebasing of the German Consumer Price Index (“German CPI”) (Bloomberg Ref: GRCP2000) as of January 2019.

ISDA is issuing this guidance in the interest of mitigating market risk and the promotion of orderly valuation and settlement of positions by market participants. Parties are not obliged to follow the guidance set forth below and may choose alternate means of addressing the event. Capitalized terms used in this statement and not otherwise defined will have the meanings specified in the 2008 ISDA Inflation Derivatives Definitions (“Definitions”).

Please Note: This statement does not constitute legal, accounting or financial advice. Each participant in an affected 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.

Statement

On February 21, 2019, the Statistisches Bundesamt announced¹ that, starting from (and including) the release of the German CPI for January 2019, German CPI levels have been rebased such that the reference year has changed from the previous 2010 = 100 to the new 2015 = 100 base. The announcement states that the procedure also included recalculation of the consumer price index for Germany from January 2015.

Whenever the base is changed, a rebasing key (C_{RB}) is required to convert values from the old to the new base.

The Definitions provide that if the Calculation Agent for an affected transaction determines that an index has been rebased at any time, the index as so rebased will be used for the purposes of determining the level of the Index from the date of such rebasing. The Definitions require the Calculation Agent to make such adjustments as are made by the calculation agent pursuant to the terms and conditions of the Related Bond, if any, to the levels of the Rebased Index levels reflect the same rate of inflation as the Index before it was rebased. However, ISDA understands that there are no German government issued debt securities in existence which reference German CPI and that, unless the parties have designated an alternative Related Bond in their confirmation, there will be no Related Bond for these purposes.

¹ https://www.destatis.de/EN/PressServices/Press/pr/2019/02/PE19_062_611.html

In these circumstances, the Definitions provide that the Calculation Agent shall make such adjustments to the levels of the Rebased Index so that the Rebased Index levels reflect the same rate of inflation as the Index before it was rebased.

As such, for transactions affected by the rebasing of German CPI in the absence of a Related Bond, in order to maintain the economic integrity of the transactions, ISDA, in consultation with market participants, recommends calculation of the rebasing key as follows²:

$$C_{RB} = \frac{IR_{2014mean}^{base2015}}{IR_{2014mean}^{base2010}}$$

Where:

$IR_{2014mean}^{base2015}$ is the mean of the 2014 German CPI levels expressed in the 2015 = 100 base;

and

$IR_{2014mean}^{base2010}$ is the mean of the 2014 German CPI levels expressed in the 2010 = 100 base.

Therefore, using the data specified in Table 1, the rebasing key is:

$$C_{RB} = \frac{99.45}{106.6416666667} = 0.9325623193$$

With the rebasing key, it is possible to rebase from 2010 to 2015 = 100 any daily inflation reference ($IR_{d,m}$):

$$IR_{d,m}^{base2015} = IR_{d,m}^{base2010} \times C_{RB}$$

As an example, the inflation reference for January 2018 expressed in the new 2015 = 100 base is as follows (it was 109.8 in the old 2010 = 100 base):

$$109.8 \times 0.9325623193 = 102.3953426591 \text{ (rounded to ten decimal places)}$$

² The rebasing key has been determined using the average of the 2014 German CPI levels which, unlike the levels for 2015 and subsequent years, were unaffected by the methodological changes referred to in the statement by the Statistisches Bundesamt. An average of the 2014 German CPI levels was used in order to neutralise the effect of seasonal variations.

Table 1

2014 German CPI levels at the 2010=100 base and the 2015=100 base (as provided by Statistisches Bundesamt) and the arithmetic mean of such 2014 German CPI levels at each base (rounded to 10 decimal places):

	2010=100	2015=100
Jan-14	105.9	98.8
Feb-14	106.4	99.2
Mar-14	106.7	99.5
Apr-14	106.5	99.4
May-14	106.4	99.2
Jun-14	106.7	99.5
Jul-14	107.0	99.7
Aug-14	107.0	99.8
Sep-14	107.0	99.8
Oct-14	106.7	99.5
Nov-14	106.7	99.5
Dec-14	106.7	99.5
<i>Arithmetic mean</i>	<i>106.6416666667</i>	<i>99.45</i>