

31 January 2020 (updated on 3 February 2020)

Closed Days Guidance – 2006 Definitions

2020 Chinese Lunar New Year Holiday Extension

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 extension to the holiday period described below.

The General Office of the State Council announced on Monday 27 January 2020 that the Lunar New Year holiday, which was originally scheduled to run from Friday 24 January 2020 to Thursday 30 January 2020 (inclusive), will now be extended to Sunday 2 February 2020 (inclusive). The announcement can be found [here](#).

As a consequence, it is ISDA’s understanding that the financial markets under the regulatory supervision of the People’s Bank of China¹ (including the interbank lending market, interbank bond market, China foreign exchange trading system, gold market and commercial paper market) and commercial banks in the People’s Republic of China (excluding Hong Kong, Macau and Taiwan) (“Mainland China”) are expected to remain closed (including for dealings in foreign exchange and foreign currency deposits) until Sunday 2 February 2020 (inclusive). Furthermore, ISDA understands that the following Chinese Renminbi rates referenced in the 2006 Definitions are not expected to be published on Friday 31 January 2020: “CNY-Semi-Annual Swap Rate-11:00-BGCANTOR”; “CNY-CNREPOFIX=CFXS-Reuters”; “CNY-Quarterly 7 day Repo Non Deliverable Swap Rate-TRADITION”; “CNY-PBOCB-Reuters”; and “CNY-SHIBOR-Reuters”.

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 is not legal advice and market participants should consult their legal advisors as appropriate. 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 in advance of Friday 31 January 2020 to discuss the consequences for their transactions.

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 <http://m.safe.gov.cn/safe/2020/0128/15267.html>

Guidance

1 2006 Definitions

It is ISDA's understanding that, as a consequence of the extension to the Chinese Lunar New Year holiday, commercial banks and foreign exchange markets in Beijing will now also be closed for general business (including dealings in foreign exchange and foreign currency deposits) on Friday 31 January 2020 (the "**Relevant Date**"), which are days on which they would have otherwise have been open but for the holiday extension.

Consequently, the Relevant Date should not be treated as

- a Banking Day² for the purposes of Rate Options that are fixed on a Banking Day,
- a Business Day for the purposes of Payment Dates, Period End Dates and Reset Dates,
- a Valuation Business Day, or
- an Exercise Business Day,

in each case, in respect of Beijing as the relevant financial center.

In respect of any Rate Option that is fixed on a Beijing Banking Day or Business Day, parties should consult the terms of the relevant Rate Option as to the consequences.

In respect of Payment Dates, Period End Dates and Reset Dates, the relevant day will adjust in accordance with the Business Day Convention specified by the parties or, if none is specified, the default Business Day Convention set out in the 2006 Definitions as follows:

- Initial Exchange Date; Premium Payment Date: Following Business Day Convention.
- Interim Exchange Date; Periodic Exchange Date; Final Exchange Date; Fixed Rate Payer and Floating Rate Payer Payment Dates: Modified Following Business Day Convention.
- Period End Dates: Modified Following Business Day Convention.
- Reset Dates: Modified Following Business Day Convention.

The Effective Date and Termination Date will not adjust in accordance with a Business Day Convention unless one is specified in the Confirmation.

Where Beijing is a relevant financial center for the purposes of the Modified Following Business Day Convention or the Preceding Business Day Convention, the application of that convention to a Payment Date falling on 31 January 2020 would strictly require the relevant payment to be made on a date that has already passed. This is because the extension to the Chinese Lunar New Year holiday was announced on 27 January 2020 and the Modified Following Business Day Convention, if applied strictly, would move the Payment Date back to 23 January 2020 (the first day preceding 31 January 2020 that was a Business Day). This does create some uncertainty as to when the payment is required to be made as a matter of practice and so market participants should consider their

² The "CNY-Semi-Annual Swap Rate-11:00-BGCANTOR" and "CNY-Semi-Annual Swap Rate-Reference Banks" Rate Options reference Beijing and New York "Settlement Days". To align with the recommended approach in respect of Beijing Banking Days, ISDA considers that the Relevant Date should similarly not be treated as a Beijing Settlement Day.

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individual positions and seek advice where necessary. It therefore seems reasonable for the payment to be made on the first day on which payment can be made that falls on or after 31 January 2020, in effect adjusting the Payment Date to 3 February 2020 as if the Following Business Day Convention applied.

On the basis that Period End Dates are not specified or otherwise predetermined, and “No Adjustment” is not specified for Period End Dates, then the Period End Date will be each Payment Date as described in the preceding paragraph. If Period End Dates are specified or otherwise predetermined, then unless another Business Day Convention is specified, a Period End Date falling on 31 January 2020 would be adjusted in accordance with the Modified Following Business Day Convention and so result in a Period End Date of 23 January 2020.

In respect of an Expiration Date falling on the Relevant Date, the Expiration Date will roll to the next following Exercise Business Day which, if Beijing is the only relevant financial center, is expected to be Monday 3 February 2020.

2 Additional Disruption Event Provisions for an Offshore Deliverable CNY Transaction

If parties have executed offshore Deliverable Chinese Renminbi (“CNY”) Swap Transactions on terms which incorporate the “Additional Disruption Event Provisions for an Offshore Deliverable CNY Transaction” published by ISDA on 14 October 2011, as amended and restated on 28 January 2014, (the “**Additional Provisions**”) certain CNY Disruption Events will apply to those Transactions and the specified consequences thereof (which include postponing settlement) will prevail over the terms of the 2006 Definitions described above and the 1998 FX and Currency Option Definitions (“**FX Definitions**”)³.

However, ISDA does not expect any CNY Disruption Event to occur as a result of the closures on the Relevant Date. This is on the basis that the CNY Disruption Events are only triggered by illiquidity, inconvertibility or non-transferability of CNY in offshore markets such as Hong Kong, Singapore and Taipei, which ISDA understands will not be affected by the closures in Mainland China on the Relevant Date.

It should be noted that the Additional Provisions also amend the default financial center(s) for CNY in the 2006 Definitions and the FX Definitions (namely, Beijing) by adding Hong Kong. However, this is only relevant in circumstances in which parties have not specified Business Day locations in their Confirmation. If Beijing is included as a financial centre, then the fact that 31 January 2020 will not be a Business Day in Beijing means that the Business Day Convention will apply as contemplated above.

3 Revised Non-Deliverable Swap Transaction Standard Terms Supplement

If 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 Valuation Date and Settlement Date will be adjusted as described below instead

³ Please refer to the “Closed Days Guidance – 1998 FX and Currency Option Definitions; 2020 Chinese Lunar New Year Holiday Extension” for a description of the implications of the extension to the Chinese Lunar New Year holiday under the 1998 FX and Currency Option Definitions.

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of in accordance with the 2006 Definitions or the FX Definitions. The following guidance assumes that the parties have not amended any of these terms in their Confirmation and are applying the Fallback Matrix published by ISDA on 10 July 2018.

Where the Settlement Date is 31 January 2020 and Beijing is a financial center for the purposes of the Settlement Date, it will be an Unscheduled Holiday. This is because 31 January 2020 will not be a Business Day and the market was not aware of such fact two Business Days prior to the Scheduled Valuation Date. This means that:

- where the Following Business Day Convention applies, the Payment Date would be 3 February 2020. The Scheduled Valuation Date falls two Scheduled Business Days prior to that date, which would be 23 January 2020;
- where the Modified Following Business Day Convention or Preceding Business Day Convention applies, the Settlement Date would be 23 January 2020. Given that it would be impossible to have made payment on that date, as with the position under the 2006 Definitions, a reasonable alternative is for payment to be made as soon as reasonably practicable thereafter. The Scheduled Valuation Date falls two Scheduled Business Days prior to such Settlement Date. If this is an Unscheduled Holiday, the Following Business Day Convention will apply.

Where the Settlement Date is 4 February 2020 and Beijing is a financial center for purposes of the Settlement Date, the Scheduled Valuation Date falls two Scheduled Business Days prior to that date, which would be 31 January 2020. 31 January 2020 is an Unscheduled Holiday and therefore the Valuation Date is adjusted in accordance with the Following Business Day Convention such that it becomes 3 February 2020. The Settlement Date is as soon as practicable after the Valuation Date but not later than two Business Days for Settlement Date (New York Business Days if the Settlement Currency is USD) later, ie no later than 5 February 2020.

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