



MARKET NOTICE

Market Notice: 2020_07

Date: 29 September 2020

Subject: Market Conventions Amendments

Market participants are advised of the following amendments to AFMA's Interest Rate conventions.

Interest Rate Derivative Conventions

LCH and the CME Group are both changing their USD collateral interest rates from Fed Funds/OIS to SOFR, transitioning at the close of business 16 October 2020.

As a means of ensuring, to the maximum extent possible, that the Australian interest rate derivatives market is ready for this change, a notation is being added to the conventions surrounding basis swaps and particularly cross currency swaps, this serving to alert participants to be aware of this scheduled change and that participants should make the necessary arrangements to recognise this eventuality in CSA documentation, it being understood that this change will not be retroactively applied.

As an interim measure pending the markets' full recognition of the change in CSA documentation, brokers will have the discretion for screens to reflect either Fed Funds or SOFR discounting.

This amendment and footnote is recorded under [Section 3.6. Quotation and Dealing -Basis Swaps](#) and is effective 29 September 2020

Queries in relation to this amendment should be directed to [Murray Regan](#), Director - Markets and Rates

Interest Rate Options Conventions

The Committee is recommending the introduction of a convention for settling the premium payable on a 'Wedge', i.e. a Cap/Floor Straddle vs Forward Swaption Straddle.

As drafted, the new convention will be presented *as follows*:

- a. A description will be provided under **3.6. Quotation and Dealing**, i.e.

A 'Wedge' is quoted as Forward Cap/Floor Straddle (CFS) vs Forward Swaption Straddle unless otherwise bilaterally agreed between parties.

- b. Specific premium conventions will be added with a new subheading under **3.7. Other Instrument Conventions**, i.e.
- 3.7.1. Forward CFS vs Forward Swaption Straddle (Wedge)**
Wedge premium is initially quoted assuming an Australian currency CSA, or as bilaterally agreed between parties. If the actual CSA currency between the counterparties is not AUD, the Wedge Premium may be adjusted to account for the difference.
Wedge premium (Forward CFS vs Forward Swaption Straddle) is payable on expiry of the Swaption, or as bilaterally agreed between parties.
- c. The date on which Wedge premiums are due to be paid will be aligned to the convention as currently codified for Forward Swaptions, **under 3.11. Premium Payable Date(s)**, i.e.
- 3.11.3. Forward Premium Swaption transactions premiums (i.e. where if exercised may or may not obligate the parties to enter into a centrally cleared swap transaction) are payable in the following manner:
 - 3.11.3.1. For cash settled swaptions, payable on the day after expiry.
 - 3.11.3.2. For physical settled swaptions, payable on the day of expiry.
 - 3.11.4. *Wedge premiums are payable in accordance with 3.11.3.1 and 3.11.3.2.*

Any comments regarding this Interest Rate Options convention should be forwarded to [Murray Regan](#), Director Markets and Rates by not later than Friday 23 October 2020.