BULLETIN – 260601/67

ICMSA Bulletin - Interest period for coupon payments - the importance of clarity around coupon payments for adjusted or unadjusted interest periods and use of business day conventions

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This bulletin updates and replaces BULLETIN 160715/39 – Interest period for coupon payments - the importance of clarity around coupon payments for adjusted or unadjusted interest periods

Important Reader Note: The content of this bulletin remains a recommendation. The ICSDs are unable to modify the current Single Collateral Management Rulebook for Europe "SCoRE" standards conventions but will continue to accept all existing conventions as per existing market practice and documentation

Introduction of Scope

The objective of the revised ICMSA Bulletin is to emphasise that as per the published SCoRE Standards, the ICSDs recommend using one of the three approved SCoRE business day conventions versus the current eight possible conventions.

As noted in the Important Reader Note, this remains a recommendation, as both ICSDs will continue to accept all existing conventions.

The only associated 'possible' consequence to take note of is that securities using non-SCoRE compliant business day conventions may be determined to be ineligible for Eurosystem Collateral Management System 'ECMS' activities.

The three business day conventions recommended in SCoRE Standard 6 are as follows:

Business Day Convention	Calculation Period	Post-Trade Process
Following	Adjusted	Pay the next business day
Following	Unadjusted	Pay the next business day
Modified Following	Adjusted	Pay the previous business day

Note: The above table is an example where the payment date falls on the last day of the month and is a non-business day. Whereby for Modified Following Business Day Convention, the Payment Date (and calculation period) will instead fall on the first preceding business day.

Background

As a background to this revised bulletin, it is important to highlight that according to the Single Collateral Management Rulebook for Europe (SCoRE), implementation of SCoRE Corporate Action Standard 6 is required for all actors involved in the processing of Corporate Actions and General Meeting events.

Using correct terminology for coupons payable on either adjusted or unadjusted basis and usage of specific business day conventions, is very important to ensure the correct payment of coupon proceeds to investors – first time and every time.

When an issuance's commercial terms[1] do not provide such information, issuers, calculation agents and issuing and/or principal paying agents are required to make an interpretation, sometimes incorrectly. This may cause payments to be made on the wrong date or even with incorrect amounts, resulting in the need for reversals and income adjustments for investors. This is a source of investor complaints.

When providing such information in an issuance's commercial terms, issuers, issuer's counsel, calculation agents and issuing and/or principal paying agents should take into consideration compliance with the SCoRE Corporate Action Standard 6, as explained below.

Since this Bulletin's original publication in 2016, the European Central Bank set up an advisory group on market infrastructures to counsel the Eurosystem on issues related to securities and collateral (AMI-SeCo), with the aim of establishing harmonised practices. This led to the creation of a Single Collateral Management Rulebook for Europe (SCoRE) covering collateral management, corporate actions and billing. Of relevance to this Bulletin is the SCoRE Corporate Action Standard 6:

Payment amounts are always calculated on the end-of-day positions on the record date. If the payment date falls on a non-business day in the country of the currency in which the payment is due, the payment must be made on the next business day. If the next business day would fall in the following calendar month, and the payment needs to be made in the same month (with the payment day being moved to precede the original payment date) then the Modified Following (Adjusted) Business Day Convention must be used.

In order to comply with this SCoRE standard and allow the eligibility of the international securities in the Eurosystem Collateral Management system (ECMS), it is recommended that one of the following business day conventions be used at the time of issuance of interest-bearing securities:

- Following Business Day convention (Adjusted) – can be used for both floating and fixed securities but is not in line with market practice
- Following Business Day convention (Unadjusted) – Fixed rate
- Modified Following Business Day convention (Adjusted) - Floating rate

Note: Business Day refers to the Business Day defined in the Terms and Conditions of the instrument

[1] Commercial terms here refers to, but is not limited to, the Base Prospectus, Offering Memorandum, Final Terms, Terms & Conditions, pro-forma template, etc., as received by the ICSDs. ICSDs: International Central Securities Depositories, jointly Clearstream Banking S.A., and Euroclear Bank S.A./N.V.

Following Business Day convention (Adjusted) – this means that:

- If a date for payment would otherwise fall on a day that is not a Business Day it will instead fall on the first following day that is a Business Day; and
- The amount payable on that changed payment date will be adjusted to take account of the change in payment date.

Following Business Day convention (Unadjusted) – this means that:

- If a date for payment would otherwise fall on a day that is not a Business Day, it will instead fall on the first following day that is a Business Day; and
- The amount payable on that changed payment date will not be adjusted to take account of the change of payment date.

Modified Following Business Day convention (Adjusted) – this means that:

- If a date for payment would otherwise fall on a day that is not a Business Day, it will instead fall on the first following day that is a Business Day unless this would be in the next calendar month, in which case the date will fall on the first preceding day that is Business Day; and
- The amount payable on that changed payment date will be adjusted to take account of the change in payment date.

Objective

The objective of this bulletin is to highlight a recommendation that explicit wording is clearly stated in each issuance's base contractual terms. This was initially and formally agreed within the International Securities Market Advisory Group's ("ISMAG") Operational Market Practice Book ("MPB"), the contents of which remain valid.

Recommendations

To ensure timely and accurate coupon payments, the ICMSA recommends issuers, arrangers and their legal counsel ensure the necessary level of clarity is included within an issuance's contractual terms, as outlined within the ISMAG MPB; specifically indicating whether the interest accrual period is adjusted or unadjusted and what business day convention is to be used.

Current Market Practice

The reader is asked to take note of current market practices linked to the issuance of fixed rate notes through the ICSDs. It is common in the case of fixed rate notes, there is no mention of "adjustment" or "unadjusted" nor any mention of a business day convention in the terms and conditions of the issue. The adopted market approach in accordance with the Payment Day conditions is that the payment will be made the next business day unadjusted, if the interest payment date is not a business day.

Adjustment of Interest Period: Yes/No

Adjustment of Interest Period: Specifies whether the interest period end date moves in addition to the actual interest payment date if the planned interest end date falls on a non-business day and the payment is adjusted accordingly.   This is recommended for variable/floating rate securities.

ICSDs default rules

- The ICSDs, by default, consider fixed rate notes as following unadjusted and floating rate/variable notes as modified following adjusted, unless the business day convention and/or the adjustment of interest period are clearly specified to the contrary.

Source Reference

ISMAG Operational Market Practice Book, Annex 6A, “Asset Servicing Checklist”