



## **BULLETIN – 160715/39**

# **ICMSA Bulletin regarding the importance of clarity around coupon payments for an adjusted or unadjusted interest period**

**Issued by the International Capital Market Services Association**

[www.icmsa.org](http://www.icmsa.org)

### **Background**

It has come to our members' attention that there is an increasing trend in issuers' documentation creating confusion for coupons payable on either an adjusted or an unadjusted basis. This very important terminology is required to ensure the correct payment of coupon proceeds to investors - first time, every time.

The ICSDs,<sup>1</sup> by default, consider fixed rate notes as unadjusted and floating rates notes as adjusted, unless clearly specified to the contrary.

However, when an issue's contractual terms<sup>2</sup> do not provide such information, issuers, calculation agents and indeed the issuing and/or principal paying agents are required to make a judgement interpretation, sometimes incorrectly. This may cause payments to be effected on the wrong date or even the wrong amounts, resulting in reversals and income adjustments to investors. This is a source of many investor complaints.

### **Objective**

The objective of this bulletin is to highlight the requirement that explicit wording is clearly stated in each issue'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.

<sup>1</sup> ICSDs: International Central Securities Depositories, jointly Clearstream Banking S.A., and Euroclear Bank S.A./N.V.

<sup>2</sup> Contractual terms here refers, but is not limited, to the Base Prospectus, Offering Memorandum, Final Terms, Terms & Conditions, pro-forma template, etc., as received by the ICSDs.



## Requirement

To ensure timely and accurate coupon payments, the ICMSA requires issuers, arrangers and their legal counsels to ensure the necessary clarity is included within an issue's contractual terms, as outlined within the ISMAG MPB and specifically indicates whether the interest accrual period is adjusted or unadjusted:

### **Adjustment of Interest Period: Y/N**

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. Required for both Fixed and Variable rate securities.

Example:

Annual interest accrual period from 19/03/2015 to 19/03/2016

Calculation method: 30/360, with a following business day convention

- **If** the period is determined as **Unadjusted**,  
Accrual period is **360 days**, with the interest payable on Monday 21/03/2016
- **If** the period is determined as **Adjusted**,  
Accrual period is then **362** days, with the interest payable on Monday 21/03/2016

## Source Reference

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

<http://www.clearstream.com/blob/9646/51383e84ef079c9a1dceb357ac876098/ismag-mpb-feb2012-pdf-data.pdf>

[https://www.euroclear.com/dam/Brochures/MA1521\\_ISMAG\\_MPB\\_2012.pdf](https://www.euroclear.com/dam/Brochures/MA1521_ISMAG_MPB_2012.pdf)