



MARKET NOTICE

Market Notice: 2020_10

Date: 27 November 2020

Subject: Market Conventions Amendments

Market participants are advised of the following amendments to AFMA's Market Conventions, effective 30 November 2020.

Interest Rate Options Conventions

Effective 30 November 2020 AFMA has introduced a convention for settling the premium payable on a 'Wedge', i.e. a Cap/Floor Straddle vs Forward Swaption Straddle.

The convention is presented [as follows](#):

- a. A description is 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 are 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 is 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.*

Comments regarding this Interest Rate Options convention may be directed to [Murray Regan](#), Director Markets and Rates