



Interest Rate Derivative Conventions

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Preface: AFMA Code of Conduct

AFMA promotes efficiency, integrity and professionalism in Australia’s financial markets. The AFMA Code of Conduct (the Code) clearly articulates the ethical principles for minimum acceptable standards of behaviour and supports responsible decision making by firms and individuals engaged in financial markets activities.

All AFMA Financial Markets Members and Partner Members¹ are expected to observe the Code and operate with integrity, professionalism and competence. The Code is designed to support behaviors that put the interests of clients, the firm and the wider community ahead of personal or individual interests, and promotes confident participation by users in Australia’s OTC markets.

The Code is presented in two parts – the [Ethical Principles](#) and the [Guidelines](#).

Market participants are reminded that they are generally expected to observe and adhere to the market standards and conventions as set out below when engaging in any form of market dealing.

1. Description

Interest Rate Derivatives

An interest rate derivative is a financial instrument based on an underlying financial security whose value is affected by changes in interest rates.

Interest rate derivatives allow parties to hedge against adverse movements in market interest rates or to speculate on market movements.

The following Interest Rate Derivative Conventions cover the main over-the-counter “vanilla” instruments in the Australian interest rate derivatives market. These include Forward Rate Agreements (FRAs) and various types of Interest Rate Swaps (IRS), including Basis Swaps

These Conventions reflect current market practices and are maintained by the AFMA Swaps Committee.

2. Products

2.1. Forward Rate Agreements

Forward Rate Agreements

A Forward Rate Agreement (FRA) is an agreement between two parties to exchange interest payments at a future date based on a specified amount at an agreed contract rate. There is no exchange of principal. Instead, there is a net settlement of the interest differential between the contract rate and the settlement rate (such as the Bank Bill Swap Rate (BBSW)).

FRAs can be denominated in any currency (E.g., AUD, NZD, USD).

FRAs are generally not centrally cleared.

¹ As defined in the AFMA Constitution

2.2. Interest Rate Swaps

Interest Rate Swaps

An interest rate swap is an agreement between two counterparties under which each party agrees to make periodic payments to the other for an agreed period of time, based on a notional amount of principal, with interest paid in arrears and settled on a net cash basis.

A swap, as the name implies, is an exchange of financial obligations. It involves two parties contracting to swap their respective interest payment flows or their foreign exchange obligations. In a swap the obligations exchanged can be in the same or different currencies and can be at fixed or floating rates of interest. There are many variations on this theme as per Appendix 1.

These conventions are specific to swap products traded between AFMA members, where at least one side of the swap is in Australian Dollars, although they are applicable to all counterparties that trade or enter into AUD swap products. Swaps denominated in other currencies would be subject to the specific conventions/rules governing those markets.

For the purposes of differentiation, interest rate swaps where both sides are at floating rates of interest are called Basis Swaps and are covered in Section 2.3. The key interest rate swap products which are not Basis Swaps traded in the Australian Market are as follows:

1. Vanilla Interest Rate Swaps
2. Overnight Index Swaps (OIS)

Both Vanilla Interest Rate Swaps and Overnight Index Swaps are generally centrally cleared.

A brief description of each of these key products follows.

Vanilla Interest Rate Swaps

A Vanilla Interest Rate Swap is a form of single currency interest rate swap in which one party pays a fixed rate of interest on a notional principal in exchange for a floating rate of interest (i.e.; fixed/floating). Depending on the term of the swap, the standard frequency of payments is either quarterly or semi-annually on both sides of the transaction. There is no exchange of principal. Instead, there is a net settlement of the interest differential between the fixed rate and the floating rate (such as the Bank Bill Swap Rate (BBSW)).

A specific type of Vanilla Interest Rate Swap, where the swap agreement is for only one period, is known as a Single Period Swap (SPS). This swap is similar to a Forward Rate Agreement, although the interest is paid in arrears and settled on a net cash basis at the end of the period.

Overnight Index Swaps (OIS)

An Overnight Index Swap (OIS) is a form of single currency fixed/floating interest rate swap. There is no exchange of principal. The floating rate is tied to a daily Interbank Overnight Cash (IBOC) reference rate. The Interbank Overnight Cash rate (also known as the cash rate) is the interest rate which banks pay or charge to borrow funds from or lend funds to other banks on an overnight unsecured basis. The Reserve Bank of Australia calculates and publishes this rate each day based on data collected directly from banks. This rate is published to vendor pages: Bloomberg RBA07, Refinitiv RBA30.

2.3. Basis Swaps

Basis Swaps

A Basis Swaps is a form of interest rate swap where both sides of the swap are based on floating rates of interest. These can be denominated in the same currency or in different currencies.

The key Basis Swap products which are traded in the Australian Market are as follows:

1. BBSW/SOFR Basis Swaps
2. 3s/1s and 3s/6s Basis Swaps

3. Cash/BBSW Swaps (BOBs)

Cross currency basis swaps such as BBSW/SOFR are not centrally cleared, whereas single currency basis swaps are generally centrally cleared.

A brief description of each of these key products follows.

BBSW/SOFR Basis Swaps

A BBSW/SOFR Basis Swap is a form of cross currency interest rate swap in which one party pays a floating rate of interest in Australian Dollars (AUD) based on a specific AUD principal in exchange for a floating rate of interest in USD based on a specified USD principal. Principals are usually exchanged at both the start and maturity of the swap. The AUD floating rate is based on BBSW whilst the USD floating rate is based on the secured overnight financing rate (SOFR)

3s/1s and 3s/6s Basis Swaps

3s/1s and 3s/6s Basis Swap is a form of single currency floating/floating interest rate swaps. There is no exchange of principal. 3s refers to quarterly floating rate payments based on 3mth BBSW. 1s refers to monthly floating rate payments based on 1m BBSW. 6s refers to semi-annual floating rate payments based on 6mth BBSW.

Cash/BBSW Swaps (BOBs)

A Cash/BBSW Swap is a form of single currency floating/floating interest rate swap. There is no exchange of principal. The floating rate of the Cash side of the swap is tied to the daily Interbank Overnight Cash reference rate. The other floating rate payment is based on BBSW.

3. Dealing

3.1. Methods of Dealing

All Products

The main methods of dealing are direct via telephone, via brokers or via electronic platforms.

3.2. Electronic Dealing

All Products

The increasing sophistication of financial markets has created a space for brokers, dealers and clients to access markets via electronic platforms.

3.3. Business Days

All Products

Business Day:

A Business Day is defined as any day which is not a 'bank close day' under the law of New South Wales. Further information can be [found on the AFMA website](#).

3.4. Customary Transaction Size

Forward Rate Agreements / Single Period Swaps

The dealing volume must be specified when a quote is given. Unless specified otherwise, the following customary dealing parcels will apply:

<i>Maturity</i>	<i>Customary Notional Principal</i>
1 month	\$ 1 billion
3 months	\$ 500 million
6 months	\$ 200 million

Vanilla Interest Rate Swaps (not including SPS)

The following customary dealing parcels are indicative only. The intent of the below is to reflect a customary interest rate risk of \$25,000 per basis point to the nearest million in face value. Dealers must agree the actual notional principal at the time of deal.

<i>Maturity</i>	<i>Customary Notional Principal for Swaps on an EFP basis</i>	<i>Customary Notional Principal for Swaps on an Outright basis</i>
1 year	\$252 million	\$252 million
2 years	\$127 million	\$127 million
3 years	\$85 million	\$85 million
4 years	\$65 million	\$65 million
5 years	\$52 million	\$52 million
6 years	\$44 million	\$44 million
7 years	\$38 million	\$38 million
8 years	\$34 million	\$34 million
9 years	\$30 million	\$30 million
10 years	\$28 million	\$28 million
>10 years	\$28 million 10 year equivalent	\$28 million 10 year equivalent

Overnight Index Swaps

The following customary dealing parcels are indicative only. The intent of the below is to reflect a customary interest rate risk of \$25,000 per basis point to the nearest million in face value. Dealers must agree the actual notional principal at the time of deal. The dealing volume must be specified when a quote is given. Unless specified otherwise, the following customary dealing parcels will apply.

<i>Maturity</i>	<i>Customary Notional Principal</i>
1 month (RBA meeting dates)	\$2 billion
2 month (RBA meeting dates)	\$1 billion
1 month	\$2 billion
2 months	\$1 billion
3 months	\$700 million
4 months	\$500 million
5 months	\$400 million
6 months	\$300 million
9 months	\$200 million
12 months	\$150 million
2 years	\$75 million
3 years	\$50 million
4 years and >4 years	\$50 million 3 year equivalent

BBSW/SOFR Basis Swaps

The following customary dealing parcels are indicative only (except for those maturities less than 1 year). The intent of the below is to reflect a customary interest rate risk of \$25,000 per basis point to the nearest million in face value. Dealers must agree the actual notional principal at the time of deal.

<i>Maturity</i>	<i>Customary Notional Principal</i>
3 months	\$800 million
6 months	\$400 million
9 months	\$300 million
1 year	\$252 million

2 years	\$127 million
3 years	\$85 million
4 years	\$65 million
5 years	\$52 million
6 years	\$44 million
7 years	\$38 million
8 years	\$34 million
9 years	\$30 million
10 years	\$28 million
>10 years	\$28 million 10 year equivalent

3s/6s Basis Swaps

The following customary dealing parcels are indicative only. The intent of the below is to reflect a customary interest rate risk of \$40,000 per basis point to the nearest million in face value. Dealers must agree the actual notional principal at the time of deal.

<i>Maturity</i>	<i>Customary Notional Principal</i>
1 year	\$403 million
2 year	\$203 million
3 year	\$136 million
4 year	\$104 million
5 year	\$84 million
6 year	\$70 million
7 year	\$61 million
8 year	\$54 million
9 year	\$48 million
10 year	\$44 million
>10 years	\$44 million 10 year equivalent

Cash/BBSW Swaps (BOBs) and 3s/1s Basis Swaps

The following customary dealing parcels are indicative only. The intent of the below is to reflect a customary interest rate risk of \$25,000 per basis point to the nearest million in face value. Dealers must agree the actual notional principal at the time of deal.

<i>Maturity</i>	<i>Customary Notional Principal</i>
1 year	\$250 million
2 years	\$127 million
3 years	\$85 million
4 years	\$65 million
5 years	\$52 million
6 years	\$44 million
7 years	\$38 million
8 years	\$34 million
9 years	\$30 million
10 years	\$28 million
>10 years	\$28 million 10 year equivalent

Notes

The customary market parcel for all swaps in a fly should reflect a customary interest rate risk of \$50,000 per basis point applied to the belly of the fly. This also applies to Bills/SOFR and Domestic Basis swaps, except for 3s/6s basis swaps, where the customary market parcel should reflect a customary interest rate risk of \$80,000 per basis point applied to the belly of the fly.

The customary market parcel for any spread trade is the "minimum of the minimum".-For example, in the case of a 3mth single period swap / OIS spread trade, the minimum would be \$500m

3.5. Two Way Pricing

All Products

No specific convention.

3.6. Quotation and Dealing

All Products (except cross currency basis swaps)

For all derivatives, prices for uncleared derivatives will be quoted assuming cash flows are discounted in the same manner as cleared derivatives. In the case of AUD swaps currently, AUD OIS curves will be used in all cases a derivative does not clear. If in the future clearinghouse discount conventions change, the market should update its treatment of uncleared derivatives to match clearinghouse standards.

Uncleared derivatives include BOBs longer than 66 months and BBSW/SOFR cross currency basis swaps.

Forward Rate Agreements

Quotes are expected to be provided promptly.

AFMA members will deal firm on their pay/receive quotes.

When quoting FRA, there is a particular phraseology that is standard in the market. The convention is to state the trade as having a starting month that is a certain number of months from now, an ending (maturity) month that is a certain (larger) number of months from now and the date within the month that is the settlement and maturity date.

For example, if today is June 5 and the FRA covers the period from September 20 to December 20 and both dates are Business Days it would be phrased as 3s/6s the 20th (and pronounced as threes sixes the twentieth).

Interest Rate Swaps

Swaps are often quoted and dealt on an Exchange of Futures for Physical (EFP) basis. This is a transaction negotiated between two parties in which a financial instrument (in this case an interest rate swap) is exchanged for an agreed equivalent amount of futures contracts. Both trades are executed simultaneously at an agreed spread as a package.

For Exchange for Physical (EFP) transactions, interbank quotations will be based on the first futures expiry contract up to and including the day which is two business days prior to the expiry date. Subsequent to this, and until futures expiry, EFP interbank quotations will be based on the second futures expiry contract.

Basis Swaps

The margin on term basis swaps across all underlying tenor combinations is applied to the shorter leg.

All collateral in cross currency basis swaps should initially be priced in US dollars discounted in the same manner as cleared USD derivatives. If in the future clearinghouse USD discount conventions change, the market should update its treatment of cross currency basis swaps to match clearinghouse standards.

Any price where the collateral is not initially priced in US dollars is not considered a market price. Market participants should notify intermediaries and counterparties that the collateral is not priced in US dollars when they are quoting prices.

Collateral can be negotiated into another currency if required.

Unless previously specified to the broker, and quoted to the market as such, AUD/USD cross currency basis swaps will be quoted and reflect spot settlement of T+2 (being 2 good business days in Sydney and New York).

BAB/OIS Swaps

When trading EFPs for BAB/OIS, the futures leg should be set off the offer of the futures spread

3s/1s & 3s/6s Basis and Cash/BBSW (BOBs) Swaps

Single currency basis swaps are traded for T+1 settlement.

3.7. Basis

Forward Rate Agreements

AUD FRA are dealt on an actual/365 basis.

Interest Rate Swaps

Swaps are quoted on a quarterly basis for maturities out to 3 years and on a semi-annual basis for maturities 4 years and greater. Swaps falling between the 3 and 4 year maturity will be negotiated between the two counterparties.

Swaps can be quoted on any other basis if the terms are agreed to by both parties.

All rates are quoted on an actual/365 day fixed basis. The standard convention denominator doesn't adjust for leap years unless otherwise stated.

For overnight index swaps less than 12 months to maturity interest is payable and settled at maturity.

For overnight index swaps greater than 12 months to maturity net interest is payable at the end of the front end stub period (if any) and annually in arrears thereafter until maturity.

Dealing Prices can be obtained on many different bases (e.g. "back end stub") and to avoid confusion the matter of settlement of the "broken" interest period or "stub period" should be clarified at the time of inquiry or quotation.

The ISDA recommendation for early termination defaults for AUD to 5 exercise business days prior to cash settlement payment date valued at 11am Sydney time.

Basis Swaps

Bills/SOFR trades are quoted on a quarterly/quarterly basis.

3.8. Maturity Conventions

All Products

In general, AFMA recommends that transactions should not be negotiated for settlement or price setting (rollover) on a non-business day.

3.9. Settlement Rate or Index

Forward Rate Agreements

The settlement rate will be the rate displayed on Refinitiv monitor page "BBSW" for AUD and "BKBM" for NZD, for the corresponding settlement period, unless otherwise agreed by both parties at the time of the original transaction. Linear interpolation will apply for non-standard dates, for AUD using the RBA's Cash Rate Target as published on Refinitiv page RBA30 or Bloomberg page RBA07 for periods less than 1 month.

For currencies other than AUD and NZD, the settlement rate will be the rate displayed on the relevant Refinitiv page for the corresponding settlement period and currency, unless otherwise agreed by both parties at the time of the original transaction.

Interest Rate Swaps

Most AUD interest rate swaps are settled against BBSW. AUD Overnight Index Swaps settle against the Interbank Overnight Cash rate compounded for the respective tenor.

Basis Swaps

Most AUD interest Basis Swaps are settled against BBSW. As per Overnight Index Swaps, the cash side of a Cash/BBSW swap is settled against the Interbank Overnight Cash rate compounded for the respective tenor.

3.10. Premium Payment Date(s)

All Products

Not applicable.

3.11. Expiry Conventions

All Products

Not applicable.

3.12. Broker Conventions

Forward Rate Agreements

No specific convention.

Interest Rate Swaps and Basis Swaps

The following conventions should be followed when dealing through interdealer brokers:

If a dealer provides a firm order with a broker and is hit on such an order the dealer must deal at the level specified for the minimum market parcel. If the dealer reneges on such a quote (i.e. drops the broker) the counterparty wishing to deal at the quoted price may request that the name of the other party be provided. After the broker informs the party who has reneged the broker is obliged to pass the party's name.

If such a dispute cannot be resolved bilaterally between the 2 parties the party with the grievance may refer to AFMA for assistance in resolving the matter.

If an order is placed with a broker under reference, then the broker should refer to the dealer before dealing at the specified price.

When providing quotes to brokers, dealers should attempt to specify the basis on which they are prepared to deal, e.g. the curve must be trading at or within half a point from a specified price. If the curve moves more than half a point against the dealer the quote is no longer firm.

When a dealer has a price with a broker it is expected that the dealer will deal at least the minimum market parcel if they have not specified a particular amount to the broker. It is then the responsibility of the broker to promulgate that information.

In instances where a dealer has submitted prices to multiple brokers and is subsequently simultaneously dealt on current unrevoked prices, the dealer must, subject to credit availability, honour and transact the minimum market parcel (as described in section 3.4 of the Conventions) with each impacted broker.

3.13. Confidentiality

All Products

Names of counterparties should not be passed by brokers prior to dealing unless both parties agree to the passing of names. Brokers should not pass counterparty names to other market participants.

Brokers should pass the size of counterparty deals on request to other market participants as they occur in a timely manner. When dealers are trading directly or through a broker neither of the parties should disclose the name of the counterparty or the size of the transaction dealt to other market participants.

3.14. Credit

All Products

The ability to deal is subject to credit constraints/limits. Dealers should advise the counterparty if they are unable to deal because of credit limits as quickly as possible. The transaction is not finalised until both parties have agreed with the other party that credit is available. Both parties have the right to request a change in price of the deal up until the time that credit limits have been finalised.

3.15. Exercise of Options

All Products

Not applicable.

3.16. Data Source

Basis Swaps

Overnight index swaps and Cash/BBSW Basis Swaps reference index is the Interbank Overnight Cash rate. The Reserve Bank of Australia calculates and publishes this rate each day based on data collected directly from banks. This rate is published to vendor pages: Bloomberg RBA07, Refinitiv RBA30.

3.17. Pricing Formulae

Forward Rate Agreements

AUD and NZD:

$$Payment = Notional \times \left(\left(\frac{1}{1 + FixedRate \times \frac{d}{365}} \right) - \left(\frac{1}{1 + FloatingRate \times \frac{d}{365}} \right) \right)$$

Other Currencies:

$$Payment = \frac{(FixedRate - FloatingRate) \times d \times Notional}{36500}$$

Adjustment of Settlement Date and Maturity Date:

If the Settlement Date or the Maturity Date does not fall on a Business Day, then it is adjusted on a Modified Following Business Day basis.

Cash / BBSW Swaps

3m BBSW fixed amount: quarterly payment, simple interest

$$FixA = Notional \times \frac{D \times F}{365 \times 100}$$

FixA = fixed amount

Notional = notional amount

D = day count (between start date & coupon date)

F = fixed rate

Overnight index swaps floating amount, quarterly payment:

$$FA = Notional \times FR$$

$$FR = \left[\left(1 + \frac{RBA_{(1)} \times D_{(1)}}{365 \times 100} \right) \left(1 + \frac{RBA_{(2)} \times D_{(2)}}{365 \times 100} \right) \dots \left(1 + \frac{RBA_{(n)} \times D_{(n)}}{365 \times 100} \right) \right] - 1$$

FA = floating amount

FR = floating rate (rounded to 4 decimal places)

Notional = notional amount

RBA₍₁₎ = the AUD Interbank Overnight Cash rate for the first reset day of the OIS transaction.

RBA_(n) = the AUD Interbank Overnight Cash rate for the last reset day of the OIS transaction.

D₍₁₎ = the day count on the first reset day of the OIS transaction

D_(n) = the day count on the last reset day of the OIS transaction

Local non business days are included as extra days in the day count of the previous local business day, e.g. the day count for a Friday preceding a normal weekend is 3 days.

Margin is paid as simple interest at the end of the period.

Overnight Index Swaps

Overnight index swaps fixed amount:

$$FixA = Notional \times \frac{D \times F}{365 \times 100}$$

FixA = fixed amount

Notional = notional amount

D = day count (between start date & maturity date)

F = fixed rate

Overnight index swaps floating amount:

$$FA = Notional \times FR$$

$$FR = \left[\left(1 + \frac{RBA_{(1)} \times D_{(1)}}{365 \times 100} \right) \left(1 + \frac{RBA_{(2)} \times D_{(2)}}{365 \times 100} \right) \dots \left(1 + \frac{RBA_{(n)} \times D_{(n)}}{365 \times 100} \right) \right] - 1$$

FA = floating amount

FR = floating rate (rounded to 4 decimal places)

Notional = notional amount

$RBA_{(1)}$ = the AUD Interbank Overnight Cash rate for the first reset day of the OIS transaction.

$RBA_{(n)}$ = the AUD Interbank Overnight Cash for the last reset day of the OIS transaction.

$D_{(1)}$ = the day count on the first reset day of the OIS transaction

$D_{(n)}$ = the day count on the last reset day of the OIS transaction

Local non business days are included as extra days in the day count of the previous local business day, e.g. the day count for a Friday preceding a normal weekend is 3 days.

Settlement is calculated as the difference between the fixed amount and the floating amount and is paid two business days after the maturing date.

For OIS greater than 12 months to maturity, net interest is payable at the end of the “front end stub” period (if any) and annually in arrears thereafter, until maturity.

The reference pages RBA007 and RBA30 are quoted to 2 decimal places and the floating amount is rounded to the nearest cent.

The final reset day is one good Sydney business day prior to the termination date. Non local business days are included as extra days in the day count of the previous local business day, e.g. the day count for a Friday preceding a normal weekend is 3 days.

Reset Day means any Sydney Business Day on which the pages RBA007 and RBA30 quote the Interbank Overnight Cash Rate.

Publication The Interbank Overnight Cash Rate calculated by the RBA survey is published on electronic media services (Refinitiv RBA30; Bloomberg RBA07) on the following business day prior to 9.30am (AEST/AEDT) and the history of this data series is available on the Reserve Banks website in Statistical Table F1 and Historical Statistical Table F1

3.18. Other Dealing Conventions

Futures Dates

The last trading day of Bank Accepted Bills (BAB) Futures contracts is the Thursday before the second Friday of the delivery/expiry month. If a counterparty to a BOB swap requests “Futures Dates”, the start date and reset dates will be the Thursdays before the second Fridays of the delivery/expiry month in the BAB futures contract for the respective tenor.

RBA Dates

If a counterparty requests a quote for “RBA Dates”, the start date will be the first business day following an RBA Board meeting and the reset dates will be the first business days following future RBA Board meetings for the respective tenor.

4. Confirmation

4.1. Timing

All Products

Confirmations are to be provided as soon as possible after the details of the transaction are agreed. Generally, this should take place within one hour of dealing.

4.2. Obligations of Dealers

All Products

No specific convention.

4.3. Documentation

All Products

The initial confirmation for this type of product supplements and forms part of the ISDA Master Agreement, and therefore the transaction must be confirmed using the standard form of confirmation.

Complete transaction information must be confirmed. The confirmation must include all applicable items from the list below:

- Trade Date
- Date of ISDA Master Agreement
- Fixed Rate Payer
- Floating Rate Payer
- Notional Amount(s) and Currencies
- Effective Date
- Termination Date
- Reset Date
- Payment Date for each Party
- Business Day Convention
- Day Count Fraction
- Floating Rate Option
- FRA Yield Discounting ¹
- Designated Maturity
- Business Centres for each Party
- Office of each Party

1 - If the 2006 ISDA Definitions have been incorporated into the Master Agreement with a counterparty, the formula for AUD and NZD FRAs is automatically used for each such transaction, as "FRA Yield Discounting" will apply. For caps, floors and collars, the confirmation should specify that "FRA Yield Discounting" will not apply".

4.4. Other Confirmation Conventions

Electronic Matching for AUD FRA

ASX Austraclear provides an Electronic Trade Confirmation and Settlement service for AUD FRAs. Under the confirmation component, both parties enter the transaction details which then electronically match on the following fields: Counterparty, Settlement Date, Maturity Date, Principal Amount and Specified Interest Rate. If all fields match, the details are recorded and stored in the system until Settlement date.

This feature eliminates the need to issue paper based confirmations. ASX Austraclear has updated the Rules and Regulations to ensure that these transactions are captured and governed by a Participant's existing ISDA Master Agreement. A function in EXIGO allows Participants to enter the date of the applicable ISDA Master Agreement.

Not all of the terminology used by Austraclear matches ISDA terminology. Refer to AFMA's *Guide to Australian OTC Transactions* which clarifies the terminology usage and provides recommended confirmations for parties not using ASX Austraclear.

5. Settlement

5.1. Physical Settlements

All Products

Not applicable.

5.2. Cash Settlements

Forward Rate Agreements

Electronic Settlement for AUD FRA

ASX Austraclear delivers a range of service options designed to streamline operational processes and enhance market participants' straight through processing capabilities.

On the settlement date, the ASX Austraclear system will enter the BBSW rates for maturing transactions or parties can enter their agreed rate. The net difference between the fixed rate and the settlement rate will be automatically calculated and transferred to the participant's ASX Austraclear bank account.

Rate Set Notification

Counterparties should confirm the rate and settlement amount on rate set date and thus avoid any discrepancy when settlement occurs. If confirmation is to occur by letter then the parties should agree which party or parties are to issue such confirmation(s), although this process is usually bilateral. It should be appropriately amended if other forms of confirmation are used.

On 17 January, 2003 ISDA recommended that parties cease exchange of rate set notification letters. However this must be agreed bilaterally under the ISDA Master Agreement.

Interest Rate Swaps and Basis Swaps

In general, AFMA recommends that transactions should not be negotiated for settlement or price setting (rollover) on a non-business day. Other conventions can be utilised if agreed at the time of dealing.

Adjustment of Settlement Date and Maturity Date - If the Settlement Date or the Maturity Date does not fall on a Business Day, then it is generally to be adjusted on a Modified Following Business Day basis.

The Start Date for Domestic Swaps is the next business day after dealing.

The Start Date for Cross Currency Swaps is the next good Sydney and New York business day after or including the AUDUSD spot date for the relevant currencies unless otherwise agreed at the time of dealing.

The Start Date for single currency basis swaps is the next neutral business date for the relevant currencies after dealing.

Note that settlements on AUD Overnight Index Swaps are paid two Business Days following maturity. Similarly, settlements for Cash/BBSW (BOB) swaps are also paid two Business Days following maturity.

For OIS greater than 12 months to maturity, net interest is payable at the end of the "front end stub" period (if any) and annually in arrears thereafter, until maturity.

5.3. Other Settlements Conventions

Cross Currency Basis Swaps

All collateral in cross currency basis swaps should be initially priced in US dollars. Any price that is not initially priced in US dollars is not considered a market price. Collateral can be negotiated into another currency if required.

6. Appendices

Appendix 1 - Glossary

Accreting Swap - A swap whose notional principal increases over time.

Amortising Swap - An interest rate swap with a decreasing principal amount.

Annuity Swap - A swap involving an initial payment or receipt then an exchange of equal coupons during the life of the swap.

Asset Swap - A swap where the fixed payment stream of the swap is generated by an asset, e.g. a bond held by a party to the swap.

Basis Swap - An interest rate swap carried out between two floating rates set against two different reference rates.

Coupon Swap - A conventional fixed for floating interest rate swap.

Cross Currency Swap - A swap where counterparties exchange equal principal amounts of 2 currencies at the spot exchange rate. During the life of the swap the counterparties exchange fixed or floating rate interest payments in the swapped currencies and at maturity. The principal amounts are again swapped at a predetermined rate of exchange (usually the initial spot rate).

Discount Swap - A swap with payments made on a discounted basis in advance.

Domestic Swap - An interest rate swap in the domestic currency.

Forward Swap - A swap that takes effect at a future date.

Interest Rate Swap - A basic fixed rate for floating rate swap organised in one currency with interest rate flows paid in arrears and settled on a net cash basis.

Long Dated Forward - A forward contract where settlement date is more than 365 days away.

Non Par Swap - A swap where one or both of the securities underlying the swap sells at a discount or premium.

Overnight Index Swap - A fixed/floating interest rate swap where the floating leg is fixed by reference to an overnight rate.

Both the fixed and floating interest legs are calculated according to Australian money market conventions (act/365 fixed). The floating amount is calculated on a compounding basis using the Interbank Overnight Cash rate displayed on pages Bloomberg RBA007 and Refinitiv RBA30. Settlement is 1st day after termination date. For an OIS of term greater than one year, both floating and fixed payments are settled annually.

Plain Vanilla Swap - A par value, generally same currency, swap with standard terms and conditions.

Roller Coaster Swap - A swap where the notional principal fluctuates over time.

Unmatched Swap - A swap not matched by an offsetting swap or asset/liability. The mismatch can be in the principal amount, date structure or both.

Zero Coupon Swap - A swap where the fixed coupon is discounted/accumulated to be paid at commencement/maturity.