



**DISCONTINUATION OF USD/IDR SPOT RATE BENCHMARK**  
**SFEMC EXPLANATORY NOTE<sup>1</sup> dated 18 February 2014**

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<sup>1</sup> Selected provisions of the 1998 FX and Currency Option Definitions, © 1998 International Swaps and Derivatives Association, Inc., Emerging Markets Traders Association, ("EMTA®") and The Foreign Exchange Committee have been reproduced here and are used with permission. However, such permission should not be construed as an endorsement of this Explanatory Note by any of them.

## **Introduction**

This Explanatory Note is being issued by the Singapore Foreign Exchange Market Committee (**SFEMC**) to assist market participants in their review of outstanding contracts that relate to the USD/IDR spot rate benchmark (denoted as "IDR VWAP" or "IDR03" in the 1998 FX and Currency Option Definitions) sponsored by ABS Benchmarks Administration Co Pte. Ltd. that will be discontinued. As set out in the SFEMC Statement dated 18 February 2014, the SFEMC has recommended that market participants should agree to amend their outstanding contracts to reference IDR JISDOR (IDR04) instead of IDR VWAP (IDR03). However, should parties fail to agree to make such amendments to their outstanding contracts, this Explanatory Note seeks to explain what will happen to such outstanding contracts pursuant to market standard template documents. Parties should note that if they come to a mutual agreement prior to settlement of such contracts, such mutual agreement will supersede the contractual fallbacks.

**This Explanatory Note is not intended as legal advice and each party remains responsible for considering its own documentation and the specific terms of its own trades and forming its own conclusion on the proper interpretation and consequences of the discontinuation of the relevant benchmarks.**

## **1. Non-deliverable forward (NDF) contracts**

1.1 **NDF Template Terms for IDR/USD NDF contracts**: In respect of outstanding IDR/USD NDF contracts, it is assumed that these contracts are documented using the Template Terms (**NDF Template Terms**) for IDR/USD Non-Deliverable FX Transactions published by EMTA, Inc. (**EMTA**), the SFEMC and the Foreign Exchange Committee of New York (**FXC**). The NDF Template Terms specify Price Source Disruption as the sole Disruption Event and provide for the following Disruption Fallbacks:

1. Valuation Postponement
2. Fallback Reference Price: SFEMC IDR Indicative Survey Rate (IDR02)
3. Fallback Survey Valuation Postponement
4. Calculation Agent Determination of Settlement Rate

1.2 The NDF Template Terms stipulate that "*if Valuation Postponement applies, ... the Settlement Date shall be as soon as practicable, but in no event later than two Business Days after the date on which the Spot Rate is determined*".

1.3 **Summary of Disruption Fallbacks for IDR/USD NDF contracts**: In summary, if the primary settlement rate option is not available on the valuation date, valuation is rolled forward for a maximum of 14 calendar days. If the primary settlement rate option becomes available during that period, that rate will be used to settle the contract. Otherwise, at the end of the 14-day period, the fallback settlement rate option (the SFEMC IDR Indicative Survey Rate (IDR02)) will be used. Given that the SFEMC IDR Indicative Survey was introduced to provide a market-based fallback valuation mechanism, it was considered important to provide a reasonable opportunity for the SFEMC IDR Indicative Survey to begin to function properly. Thus, an additional 3 Business Days of postponement is built in for the SFEMC IDR Indicative Survey to yield a result. At the end of that period, if the SFEMC IDR Indicative Survey has not yielded a result, each contract will be settled through Calculation Agent Determination<sup>2</sup> (which necessarily means that contracts may be settled at different rates). A flow-chart of the process can be found in the Appendix.

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<sup>2</sup> Section 5.2(f) of the FX Definitions provides that "[u]nless otherwise specified in a Confirmation, if none of the applicable Disruption Fallbacks provides the parties with a means of determining the Settlement Rate or settling the Transaction, as the case may be, the Transaction will terminate in accordance with the provisions of "No Fault Termination". However, given that Calculation Agent Determination should yield a result, No Fault Termination (which is defined in Section 5.2(c)(ix) of the FX Definitions) should not come into play.

#### 1.4 **Relevant definitions:**

**“Price Source Disruption”** is defined in Section 5.1(d)(xi) of the 1998 FX and Currency Option Definitions (FX Definitions) to mean *“it becomes impossible to obtain the Settlement Rate on the Valuation Date (or if different, the day on which rates for that Valuation Date would, in the ordinary course, be published or announced by the relevant price source)”*.

**“Valuation Postponement”** is defined in the NDF Template Terms to mean *“for purposes of obtaining a Settlement Rate, that the Spot Rate will be determined on the Business Day first succeeding the day on which the Price Source Disruption ceases to exist, unless the Price Source Disruption continues to exist (measured from the date that, but for the occurrence of the Price Source Disruption, would have been the Valuation Date) for a consecutive number of calendar days equal to the Maximum Days of Postponement. In such event, the Spot Rate will be determined on the next Business Day after the Maximum Days of Postponement in accordance with the next applicable Disruption Fallback”*. The **“Maximum Days of Postponement”** is defined in the NDF Template Terms as *“14 calendar days”*.

**“Fallback Reference Price”** is defined in Section 5.2(c)(v) of the FX Definitions to mean *“that the Calculation Agent will determine the Settlement Rate for a Transaction on the relevant Valuation Date (or, if different, the day on which rates for that Valuation Date would, in the ordinary course, be published or announced) pursuant to the first of the alternate Settlement Rate Options, if any, specified as a Fallback Reference Price for such purpose in these Definitions or the related Confirmation that is not subject to a Disruption Event”*.

**“Fallback Survey Valuation Postponement”** is defined in the NDF Template Terms to mean *“that, in the event that the Fallback Reference Price is not available on or before the 3<sup>rd</sup> Business Day (or day that would have been a Business Day but for an Unscheduled Holiday) succeeding the end of either (i) Valuation Postponement for Price Source Disruption, (ii) Deferral Period for Unscheduled Holiday, or (iii) Cumulative Events, then the Settlement Rate will be determined in accordance with the next applicable Disruption Fallback on such day. For the avoidance of doubt, Cumulative Events, if applicable, does not preclude postponement of valuation in accordance with this provision”*.

**“Calculation Agent Determination of Settlement Rate”** is defined in Section 5.2(c)(ii) of the FX Definitions to mean *“that the Calculation Agent will determine the Settlement Rate (or a method for determining the Settlement Rate), taking into consideration all available information that in good faith it deems relevant”*.

**“Settlement Rate”** is defined in Section 1.16(c) of the FX Definitions to mean *“for any Valuation Date in respect of a Settlement Date, the currency exchange rate equal to (i) the Settlement Rate specified or otherwise determined as provided in the related Confirmation or, (ii) if a Settlement Rate or a means of determining a Settlement Rate is not so specified, the Spot Rate for that Valuation Date”*.

**“Valuation Date”** is defined in Section 1.16(f) of the FX Definitions to mean *“each date (i) specified as the Valuation Date or otherwise determined as provided in the related Confirmation ... which is a day in respect of which a Spot Rate is to be determined for purposes of determining the Settlement Rate”*.

**“Spot Rate”** is defined in Section 1.16(e) of the FX Definitions to mean *“for any Rate Calculation Date, the currency exchange rate determined in accordance with the specified (or deemed specified) Settlement Rate Option, or if a Settlement Rate Option is not specified (or deemed specified), the currency exchange rate at the time at which such rate is to be determined for foreign exchange transactions in the relevant Currency Pair for value on the Settlement Date, as determined in good faith and in a commercially reasonable manner by the Calculation Agent”*.

**“Rate Calculation Date”** is defined in Section 1.16(a) of the FX Definitions to mean *“the Valuation Date ...”*.

1.5 **Price Source Disruption:** The discontinuation of the IDR VWAP (IDR03) spot rate would lead to a Price Source Disruption for the relevant NDF contracts, leading to the operation of the Disruption Fallbacks.

1.6 **Application of the Disruption Fallbacks to IDR/USD NDF contracts:** The first Disruption Fallback, Valuation Postponement provides that if the Price Source Disruption ceases within the next 14 calendar days, then the Settlement Rate will be the IDR VWAP (IDR03) spot rate that next appears on the relevant Screen Page following the original Valuation Date. However, if the Price Source Disruption continues, then at the end of the 14-calendar day period, the second Disruption Fallback, Fallback Reference Price, will apply. On

the 15<sup>th</sup> calendar day (if that is a Business Day<sup>3</sup>, otherwise on the next Business Day), the Calculation Agent is to determine the Settlement Rate by reference to the SFEMC IDR Indicative Survey Rate (IDR02)<sup>4</sup>. If the SFEMC IDR Indicative Survey Rate (IDR02) is not available on that date, then the third Disruption Fallback, Fallback Survey Valuation Postponement, will apply. This requires the Calculation Agent to determine the Settlement Rate by reference to the SFEMC IDR Indicative Survey Rate (IDR02) if it becomes available on the next 2 Business Days. If the SFEMC IDR Indicative Survey Rate (IDR02) does not become available by the 3<sup>rd</sup> Business Day, then the fourth Disruption Fallback, Calculation Agent Determination of Settlement Rate<sup>5</sup>, will apply on that 3<sup>rd</sup> Business Day.

1.7 **Example of Disruption Fallback time-line for IDR/USD NDF contracts:** As an example of the time-line for IDR/USD NDF contracts:

1 Sep (Mon)	14 Sep (Sun)	15 Sep (Mon)	16 Sep (Tue)	17 Sep (Wed)
Valuation Date	End of 14-calendar day period	Fallback Reference Price (1 <sup>st</sup> attempt)	Fallback Reference Price (2 <sup>nd</sup> attempt)	Fallback Reference Price (3 <sup>rd</sup> attempt)
				Calculation Agent Determination of Settlement Rate

1.8 **Conclusion in respect of IDR/USD NDF contracts:** Given the discontinuation of the IDR VWAP (IDR03) spot rate benchmark and that the SFEMC will not conduct an SFEMC IDR Indicative Survey, this means that the Settlement Rate will be the prevailing spot rate on the day that falls 14 calendar days plus 3 Business Days after the original Valuation Date as determined by the Calculation Agent pursuant to the fourth Disruption Fallback, Calculation Agent Determination of Settlement Rate. Settlement of the contract must take place no later than 2 Business Days<sup>6</sup> after the Settlement Rate is determined. No compensation is payable by either party to the other in respect of the delayed settlement.

## **2. Non-deliverable currency option (NDO) contracts**

2.1 **NDO Template Terms for IDR/USD NDO contracts:** In respect of outstanding IDR/USD NDO contracts, it is assumed that these contracts are documented using the Template Terms (**NDO Template Terms**) for IDR/USD Non-Deliverable Currency Option Transactions published by EMTA. Like the NDF Template Terms, the NDO Template Terms specify Price Source Disruption as the sole Disruption Event and provide for the same Disruption Fallbacks.

2.2 Further, like the NDF Template Terms, the NDO Template Terms stipulate that *“if Valuation Postponement applies, ... the Settlement Date shall be as soon as practicable, but in no event later than two Business Days after the date on which the Spot Rate is determined”*.

2.3 **Conclusion:** As such, the discussion in Section 1 above applies *mutatis mutandis* to such NDO contracts.

<sup>3</sup> This will be Valuation Date Business Day which will be Jakarta and Singapore for IDR/USD contracts.

<sup>4</sup> If there are sufficient responses, the SFEMC Indicative Survey Rate will be published at 3:30 p.m. Singapore time on that day or as soon thereafter as practicable.

<sup>5</sup> The Settlement Rate determined pursuant to any of the Disruption Fallbacks, including Calculation Agent Determination of Settlement Rate, will be the prevailing spot rate and not what the spot rate would have been on the original Valuation Date. The definition of “Settlement Rate” refers to *“any Valuation Date in respect of a Settlement Date”*; the definition of “Valuation Date” refers to *“a day in respect of which a Spot Rate is to be determined for purposes of determining the Settlement Rate”*; and the definition of “Spot Rate” refers to *“the currency exchange rate at the time at which such rate is to be determined for foreign exchange transactions in the relevant Currency Pair for value on the Settlement Date”* (emphasis added). In short, the Settlement Rate should be determined bearing in mind the Settlement Date and hence, the Calculation Agent should determine the prevailing spot rate and not what the spot rate would have been on the original Valuation Date.

<sup>6</sup> This will be Settlement Date Business Day which will be New York.

### **3. Non-deliverable swap (NDS) contracts**

3.1 **NDS Templates**: In respect of outstanding NDS contracts, it is assumed that these contracts are documented using the revised form of confirmation that incorporates inter alia the Non-Deliverable Swap Transaction Standard Terms Supplement, as published by the International Swaps and Derivatives Association, Inc. (**ISDA**) and effective on August 6, 2013 (**2013 NDS Template**).

3.2 In respect of IDR, like the NDF Template Terms, the 2013 NDS Template specifies Price Source Disruption as the sole Disruption Event and provide for the same Disruption Fallbacks.

3.3 The 2013 NDS Template stipulates that *“if Valuation Postponement applies, then the Settlement Date relating to such Scheduled Valuation Date shall be as soon as practicable, but in no event later than the day which is the number of Business Day(s), as specified under the column headed “Number of Business Day(s) for Settlement Date term” in the Fallback Matrix for the applicable Currency Pair, after the date on which the Spot Rate for such Settlement Date is determined. If any Settlement Date is adjusted in accordance with the preceding sentence, then such adjustment (and the corresponding payment obligations to be made on such dates) shall apply in respect of both parties, and provided further that no such adjustments shall be made in respect of Period End Dates (including the Termination Date) for the purpose of determining the Calculation Periods”*. The relevant column of the Fallback Matrix specifies two Business Days in respect of IDR.

3.4 **Conclusion**: As such, the discussion in Section 1 above applies *mutatis mutandis* to such NDS contracts<sup>7</sup>. No additional interest will be payable in respect of the delayed settlement under the 2013 NDS Template and no adjustments will be made to the Calculation Periods as a result of such delayed settlement.

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<sup>7</sup> Note that Settlement Date Business Day differs from that in the NDF contracts.

# APPENDIX

## ASIAN NDF FLOW CHART

