

# Circular C-IRS-06/2023

Coupons, considerations and additional payments



**BME CLEARING**

**Segment: IRS**

**Effective Date: 5 December 2023**

**Replaces: C-IRS-12/2015**

**This document defines the procedure for fixing, calculating and settling coupons, considerations and additional payments in IRS. It is modified due to the discontinuation of the EONIA Benchmark.**

BME CLEARING will support the following events:

1. Rate fixing
2. Coupons
3. Additional payments (considerations).

BME CLEARING will determine the rate fixing dates for transactions where the floating leg requires rate setting and the payment dates of coupons according to the Calendar and Business days Convention specified in the registered transaction.

## 1. Rate fixing

BME CLEARING will notify Members through specific report of the value of the floating index rate to be fixed for every business day and the fixing dates of the floating leg of registered transactions, to be used for calculation of the coupons of IRSs that are benchmarked to one of the following interest rates:

- a. **Euro-EURIBOR-Telerate (ISDA2000)" / "Euro-EURIBOR-Reuters"** the rate for Euro deposits for a determinate maturity frequency, which is published on the screen of Reuters EURIBOR01 at 11:00 am Brussels time, on the business day two days prior to the rate fixing or reset date.
- b. **EuroSTR:** short-term euro interest rate reflecting the costs of wholesale unsecured overnight loans in euro from banks located in the euro area. Its calculation is based entirely on confidential daily statistical information relating to money market transactions compiled in compliance with the Money Market Statistical Information Regulation (MMSR) and is published each business day by the ECB at 08:00 (CET).

If one of the above index rates is not available, the clearing house will determine, at its own discretion, the interest rate to be applied.

## 2. Coupons

Payment of fixed or floating coupons of registered transactions will be the result adding up the coupons to be received, less the coupons to pay with the same effective payment date, as set out in the Circular "Clearing and Settlement. Schedule and procedure" in business days, in accordance with the calendar and convention of business days agreed in the novated transaction.

## 2.1 Calculation of IRS fixed coupons

BME CLEARING will determine the fixed coupon amounts as follows:

- a. Any predetermined amount in a registered transaction of a specific Member, for a specific date in a specific period.
- b. If the amount is not determined in a registered transaction of a specific Member, for a specific date in a specific period, BME CLEARING will calculate the amount with the following formula:

$$\text{Notional} * \text{Fixed Rate} * \text{Day Count Fraction}$$

Where:

**Day Count Fraction:** Calculation Basis is the fraction of the year calculated using the conventions stipulated upon registration of transactions and applied to calculate the number of days (between the Period Start Date and the Period End Date) and to define the number of days to be taken for the complete year (denominator).

## 2.2 Calculation of IRS floating coupons

BME CLEARING will calculate the floating amount for IRSs with the following formula:

$$\text{Notional} * \text{Floating Rate } (\pm \text{Spread}) * \text{Day Count Fraction}$$

Where:

**Day Count Fraction:** Calculation Basis is the fraction of the year calculated using the conventions stipulated upon registration of transactions and applied to calculate the number of days (between the Period Start Date and the Period End Date) and to define the number of days to be taken for the complete year (denominator).

For IRSs in the form of OIS, the floating amounts are benchmarked to the overnight rate (EuroSTR) and the rate used is the result of observing the compound interest, the EuroSTR rates published between the Initial Payment Date and the Final Payment Date, as follows:

$$\text{EuroSTR} = \left[ \prod_{i=1}^{\text{do}} \left( 1 + \text{EuroSTR}_i * \frac{n_i}{360} \right) - 1 \right] * \frac{360}{d}$$

Where:

<b>d<sub>0</sub></b>	This is the number of business days of the TARGET payment calendar for a determinate calculation period (between the Period Start Date and the Period End Date).
<b>i</b>	It is a series of whole numbers from 1 to d <sub>0</sub> representing the TARGET Settlement Dates in chronological order from, and including, the first destination settlement dates in the Calculation.
<b>EuroSTR<sub>i</sub></b>	For any date i in the corresponding Calculation Period, a benchmark rate equal to EuroSTR, as stipulated in section 1 of this Circular.
<b>n<sub>i</sub></b>	This is the number of business days of the Calculation Period in which the EuroSTR is observed.
<b>d</b>	This is the number of business days of the Calculation Period.

Once the EuroSTR rate is obtained, the aforementioned formula is used:

$$\text{Transaction face amount} * \text{EuroSTR} (\pm \text{Spread}) * \text{Calculation Basis}$$

## 2.2 Calculation of FRA

BME CLEARING will calculate the settlement amount of the FRA with the following formula:

$$\text{Settlement value} = N \times \frac{(R - \text{FRA}) * \frac{n}{\text{base} * 100}}{1 + \frac{R * n}{\text{base} * 100}}$$

Where:

<b>N:</b>	Notional
<b>R:</b>	Floating Rate Index interest rate at term of FRA in effect on settlement date.
<b>FRA:</b>	Interest rate agreed in FRA
<b>n:</b>	Number of days of FRA from contract start date to maturity date
<b>Day Count Fraction:</b>	Fraction of the year calculated using the conventions stipulated upon registration of transactions and applied to calculate the number of days (between the Period Start Date and the Period End Date) and to define the number of days to be taken for the complete year (denominator).

## 3. Additional payments and Considerations

BME CLEARING will settle additional payments of registered transactions by adding up additional payments to be received and subtracting the additional payments to be made with the same cash payment date.

As set out in the Circular *Terms, additional definitions and eligibility criteria*, BME CLEARING will settle up to six additional payments during the lifetime of the novated transaction.

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