

## Negative interest rate – impact on OTC interest rate derivatives under the ISDA Master Agreement

On 12 February 2015, the Executive Board of the Riksbank decided to cut the repo rate by 0.10 percentage points, to -0.10 per cent, and to adjust the repo-rate path down somewhat. Moreover, the Riksbank will buy government bonds for the sum of SEK 10 billion.

How is a negative interest rate dealt with under the standardised terms and conditions for an interest rate derivative entered into under the ISDA Master Agreement?

### ISDA 2006 Definitions

The ISDA 2006 Definitions, including Supplement 22 (for older interest rate derivatives, the ISDA 1991 Definitions or the ISDA 2000 Definitions may be applicable and in such cases the analysis need to be made in respect of the terms and conditions set out in those definitions, in this briefing only the ISDA 2006 Definitions will be discussed).

Negative interest rates are expressly dealt with in *Section 6.4 Floating Negative Interest Rates* of the ISDA 2006 Definitions.

Unless the parties to the interest rate derivative have agreed that *Floor Rate*, *FRA Discounting* or *FRA Yield Discounting* shall be applicable between the parties, the parties may according to *Section 6.4* agree that one of two different models shall apply. Those two models are named "*Floating Negative Interest Rate Method*" and "*Zero Interest Rate Method*".

In brief, "*Floating Negative Interest Rate Method*" means that the party that normally shall pay interest in the floating leg of the interest rate derivative does not have to pay anything if the floating rate is negative and that the party that normally shall pay interest in the fixed leg also shall pay the negative interest.

Further, "*Zero Interest Rate Method*" means in brief that the party that normally shall pay interest in the floating leg of the interest rate derivative does not have to pay anything if the floating rate is negative and that the party that normally shall pay interest in the fixed leg does not have to pay the negative interest.

If the parties have not chosen any of those two alternatives "*Floating Negative Interest Rate Method*" shall apply between the parties according to *Section 6.4(a)*.

## Contact

For questions or further information, please contact:



**Niclas Rockborn**  
Advokat/Partner  
Gernandt & Danielsson Advokatbyrå KB  
Direct: +46 8 670 66 46  
Mobile: +46 734 15 26 46  
niclas.rockborn@gda.se



**Candra Torebring**  
Advokat/Partner  
Gernandt & Danielsson Advokatbyrå KB  
Direct: +46 8 670 66 29  
Mobile: +46 734 15 26 29  
candra.torebring@gda.se