New York, December 10, 2015 - The International Swaps and Derivatives Association, Inc. (“ISDA”) is issuing this statement of best practices in the interest of promoting orderly valuation and settlement of relevant financially settled derivative transactions in light of Platts’ decision to change the specifications of its U.S. Gulf Coast 3% Sulphur physical residual fuel oil assessment.

On October 6, 2015, Platts issued a Subscriber Note describing its determination to change the specifications of its U.S. Gulf Coast 3% Sulphur fuel oil assessment (“USGC 3%S FO Assessment”) to reflect RMG 380 3.5% Sulphur quality fuel oil (which is currently assessed by Platts under the label “FO RMG 380 USGC Waterborne”), per ISO 8217 specifications, with effect from January 3, 2017 (the “Effective Date”). Concurrent with that change, Platts will also rename its USGC 3%S FO Assessment as “USGC HSFO”.

Members of various ISDA commodities working groups met by teleconference on several occasions to discuss how to treat this change for purposes of derivative transactions that include any Commodity Reference Prices that are based upon the USGC 3%S FO Assessment and have Pricing Dates or maturities falling on or after January 3, 2017. As a result of such discussions and other industry developments, the statement below was developed.

The statement below can be applied to all financially settled derivative transactions that incorporate Commodity Reference Prices that are based upon the USGC 3%S FO Assessment and include Pricing Dates or maturities falling on or after January 3, 2017 (even if such transactions were entered into on or before the date on which the assessment’s specifications will be changed and whether such transactions were documented under ISDA Master Agreements or under other (non-ISDA) contractual arrangements) (each, an “Affected Transaction”). Parties are not obliged to follow the statement set forth below and may choose alternate means of treating Affected Transactions.

Please Note: The Statement below does not constitute legal, accounting or financial advice. The Statement provides the market consensus among participants and is not meant to be binding in any way. As with all market information and guidance that ISDA disseminates, parties are free to choose alternative means of addressing the event. Parties to Affected Transactions are responsible for considering their own documentation and the specific terms of the Affected Transactions and should satisfy themselves that the recommendation is appropriate and is properly applied in the context of the Affected Transaction to reflect the commercial intention of the parties.
Statement

With respect to any uncleared Affected Transaction (unless the parties otherwise agree):

(i) neither the change in specification and name of the Platts USGC 3%S FO Assessment nor any related change in respect of an Exchange contract upon which a Commodity Reference Price is based should be deemed a Market Disruption Event (regardless of whether a Calculation Agent may determine that a Market Disruption Event had occurred as a result of one or more of such events);

(ii) any Commodity Reference Price that is based upon Platts’ USGC 3%S FO Assessment should be deemed to reference Platts’ FO RMG 380 USGC Waterborne assessment (which is to be renamed “USGC HSFO” on January 3, 2017) effective as of December 14, 2015 for the remaining term of such Affected Transaction; and

(iii) consistent with Platts’ recommended differential to reflect this benchmark specification change, the terms of any Affected Transaction should be adjusted appropriately by the Calculation Agent to reflect a differential of $1.45/bbl between the Platts’ USGC 3%S FO Assessment and the Platts’ FO RMG 380 USGC Waterborne assessment (taking into account, where relevant, adjustments made to Affected Cleared Contracts (as defined below) and related cost of funding considerations (if any)); for example, a Calculation Agent may seek to reflect the differential by adjusting one of the legs of an Affected Transaction by $1.45/bbl effective as of December 14, 2015 for the remaining term of such Affected Transaction.

Relevant exchanges and clearing houses that clear contracts based upon the USGC 3%S FO Assessment with maturities in 2017 and beyond (“Affected Cleared Contracts”) are expected to make contract name and specification changes, and applicable cash adjustments, to Affected Cleared Contracts remaining open as of close of business on Friday, December 11, 2015. Such cash adjustments are expected to compensate short position holders of the Affected Cleared Contracts due to the implied $1.45/bbl contract value change, with an equivalent negative adjustment made to holders of long open positions.

All capitalized terms used in this statement and not defined herein shall have the meanings set forth in the 2005 ISDA Commodity Definitions or the 1993 ISDA Commodity Derivatives Definitions (and the 2000 Supplement thereto), as may be appropriate.

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