

Day Convention for Dates Generation (W5)

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PURPOSE

This document explains the different types of conventions and how each affects the dates generation.

FREQUENTLY ASKED QUESTIONS

FAQ01. What are the different types of non-end-of-month conventions and how do they affect the dates generation?

When generating a sequence of dates (for example, when generating the coupon payment dates for a swap, a loan or a bond), it may be necessary to adjust the dates for non-business days. Weekend days (Sat and Sun) are non-business days.

No Adjustment

Dates are not adjusted.

Next Business Day

If a date falls on a weekend or a holiday, the next good business day is used.

Previous Business Day

If a date falls on a weekend or a holiday, the previous good business day is used.

Modified Month End

If a date falls on a weekend or a holiday, the next good business day is used. But if the next good business day falls in the next month, the previous good business day is used.

FAQ02. What are the different types of end-of-month conventions and how do they affect the dates generation?

When generating a sequence of dates, there are different conventions regarding how dates are generated at the end of the month.

The preceding non end-of-month conventions will generate cash flow dates that fall on the same day of the month, and then possibly adjust the date to a business day.

End-of-month conventions will generate dates in the same way, except when the date falls on the last day of the month. In this case, the end-of-month convention will generate subsequent cash flow dates that fall on the last day of each cash flow month (and then possibly adjust to a business day).

For example, suppose today is 28-Feb-1995 (the last day of February) and suppose we would like to generate a date 6 months from this date. This generated date is ambiguous, as both 28-Aug-1995 and 31-Aug-1995 seem reasonable.

The preceding non-end-of month business day conventions will generate the 28th of August (and then possibly adjust to a business day), while the end-of-month business day conventions will generate the 31st of August (and then possibly adjust to a business day). The end-of-month adjustment methods provided are:

Month End - No Adjustment

Dates are generated according to the end-of-month rule described above. Generated dates are not adjusted for business days.

Month End - Next Business Day

Dates are generated according to the end-of-month rule described above. If a generated date falls on a weekend or a holiday, the next good business day is used.

Month End - Previous Business Day

Dates are generated according to the end-of-month rule described above. If a generated date falls on a weekend or a holiday, the previous good business day is used.

CHANGE HISTORY

Date	By	Changes
15-Feb-2008	-	Created.
28-Jul-2015	CS	Included section for FAQ.
18-Feb-2016	Clarissa	Rewritten. Reformatted.
12-Jun-2016	Douglas	Proofread.