Stub Period Interest

See the previous W5 version guide.

PURPOSE

This document describes how CS Lucas system handles stub period for interest computation.

WHY IS THIS IMPORTANT?

This allows users to verify the formula and methodology used by CS Lucas to compute the interest for stub period.

FORMULA

When a term loan is created with first coupon date which is less than the standard cycle, the system will generate a shorter first period, known as stub period.

The system has a special handling in the case where accrual method is 30/360 and frequency is Annual, Semi-Annual, Quarterly or Monthly.

Create a term loan transaction as follows:

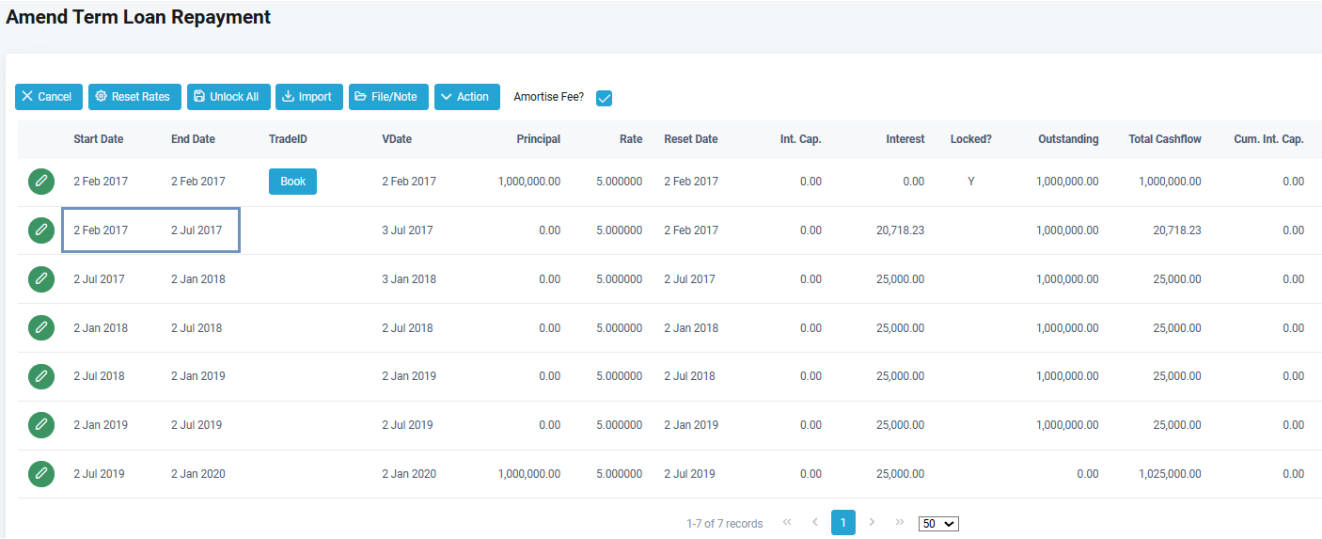
New Term Loan

Cancel | Book | Import | Settle'm Bank | Check Compliance

Transaction*	Borrow
Accounting Centre*	TFS-SG
TDate*	31/01/2017
Vdate*	02/02/2017
Mdate*	02/01/2020
First Coupon	02/07/2017
Ccy*	GBP
Principal*	1,000,000.00
Reset/Fix Rate*	5.000000
Cap Rate	
Floor Rate	
Float Basis*	-FIXED-
Margin(%)*	0.000000
Facility*	TFS<CITI-SG-TL
Counterparty ID	CITI-SG
Portfolio	
Show Advance	☑
Frequency*	Semi-Annual
Day Convention*	No Adjustment
Settle Convention*	Next Business Day
Reset Convention*	No Adjustment
Reset Days*	0
Accruals	30/360
Repayment Style*	Bullet
Transaction Type	-
Project	-

Available:GBP 55.95m (100.0%)

The system generates the below periodic structure



The stub period starts on 2 Feb 2017 and ends on 2 Jul 2017. This is 150 days, which is shorter than the regular semi-annual frequency.

The interest computation for the interest in the stub period is as follows:

1) The system will compute a “notional” start date for the stub period based on the end date 2 Feb 2017 and semi-annual frequency. In this example, the notional start date is 2 Jan 2017.

2) Compute the number of days is this period using notional start date:

    2 Jan 2017 to 2 Jul 2017 is 181 days

3) As this is a semi-annual frequency, the implied period interest based on the notional start date is:

    5% * 1,000,000/2 = 50,000

4) Apportion the implied period interest to the effective days:

    50,000 * 150/181 = 20,718.23

RELATED INFORMATION

CHANGE HISTORY

Date	By	Changes
8-Mar-2017	Clarissa	Created.
27-Nov-2019	Lyra	Updated Screenshots.
18-Feb-2025	Lyra	Updated to W6 instructions and screenshots.