

B.4 Interest day-count conventions

B.4.72 While interest on money market instruments denominated in euro is conventionally quoted and calculated using a day-count convention of actual/360, the day-count convention used by banks for both money market and retail transactions in sterling is actual/365. The resulting amounts of interest payable differ for the same nominal rate. Day-count conventions determine how a quoted interest rate is to be interpreted where the fraction is not explicitly stated.

B.4.73 In the event of UK entry, the wholesale money market would operate on the basis of actual/360 rather than actual/365 from T, and financial institutions would need to consider the implications for their treasury management of any differences. In addition, a number of technical questions would need to be addressed by financial institutions in relation to their retail customers. In this context, retail transactions would be those where the rate of interest was not explicitly linked to a money market rate, and might include some transactions with large customers and counterparties. The technical questions would include the following.

- How would financial institutions deal with the relationship between two different day-count conventions? Would the nominal interest rate offered be different, reflecting the difference in the calculation of the day count (eg 5% under actual/360 would be adjusted to 5.0694444% under actual/365)?
- How should financial institutions explain the difference between the two day-count conventions to their customers? Would the current requirements for the annual equivalent rate of interest adequately address this issue? And how would financial institutions ensure that it was clear on which basis an interest rate was being quoted?

B.4.74 The banks' current view is that, during and after the transition period following UK entry, rates should be quoted with actual/365 for products that were not explicitly market-linked, and actual/360 for market-linked rates, with appropriate annotation where the presumption did not apply. [Their view is set out in more detail in Box 4.](#)