



**ISDA Credit Operations: Credit Novation Consent Equals Confirmation Market Update Call
Frequently Asked Questions (FAQ)**

August 13, 2010

[Revised October 8, 2010]

Speakers: James Haskell (James.Haskell@gs.com), Nicola Barron (nicola.j.barron@jpmorgan.com)
David Lucking (David.Lucking@NewYork.AllenOverly.com), Mark New (mnew@isda.org)

ISDA leads: Nichole Framularo (nframularo@isda.org), Andrew Kayiira (akayiira@isda.org)

Questions and Answers:

1. Can we modify the underlying details of the trade during the consent process?

A: No. The new transaction between the Remaining Party and the Stepping In Party (Transferee) will have identical information to the original TIW record, with the exception of some pre agreed rule based updates in which the platforms will process. There are some key exceptions to this rule:

- If trades were confirmed on a Master Confirmation Agreement (MCA), they will be transferred to the ISDA Credit Derivatives Physical Settlement Matrix, if applicable, or a respective Standard Terms.*
- Additional terms which should not be transferred, such as 'linked language' or collateral terms, will not be transferred to the transaction between the Transferee and Remaining Party.*
- If there is a Succession Event, Event that impacted the transaction but is not yet reflected in the warehouse record, or an error during the assignment, the update to the new transaction would need to be made as a subsequent amendment. In the case of a Succession Event the amendment would need to be made during the DTCC 'Rename Event' process.*

2. Could someone go through the eligibility for 'C=C'?

A: Trades which are eligible for 'C=C' are those in which:

- The original record is within the Trade Information Warehouse*
- The original record is in a 'gold certain status' or if 'uncertain' has no pending amendments or exits.*
- The original record needs to be transferable under an applicable Standard Terms Supplement or under current ISDA Credit Derivatives Physical Settlement Matrix terms (For example, a 2003 Australia New Zealand MCA is not eligible as there is no equivalent Matrix transaction type)*
- The RP and EE must be a Fed 14 Firm*

There will be an eligibility matrix, which will be published on the ISDA website in due course, containing all "C=C" eligibility rules as of the go-live date. Please note that eligible product lists will be maintained by the service providers.

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3. As the OR can we pick between Consent Equals Confirmation ('C=C') or 'Consent Only', or are we required to do Consent Equals Confirmation every time?

A: No, you cannot choose, if the trade is "C=C" eligible it will be processed as "C=C". The Industry has defined core logic which will dictate whether a novation is eligible for 'C=C' or 'Consent Only'. The Novation Consent Platforms will apply this logic to all Novation Consent Requests, and will include an identifier with each Novation, making it clear whether a Novation is being processed as "C=C" or "Consent Only". Any eligible trade currently in the Trade Information Warehouse, upon consent via an eligible novation consent platform, will be processed as 'C=C'. Outside novations alleged through the novation consent platforms will not be eligible for 'C=C', nor will any trades out of scope such as FTDs or Bespoke transactions.

4. Is it necessary that the RP and EE consent to the novation or just the RP?

A: All three parties need to consent to the transaction once alleged on the platform. The OR will always be the initiator of the consent and the EE and RP are required to take action to finalize the consent.

5. Is it necessary that the Transferee accept the consent request and if not what are the implications?

A: Generally the Transferor and Transferee have already agreed to the novation, but the Transferee will need to review the consent request to ensure it accurately reflects the novation agreed with the Transferor. The obligations of all three parties are captured within the Additional Provisions in addition to the relevant Operating Procedures.

6. What is the 'Consent Only' flag?

A: The Industry has defined core logic which will dictate whether a novation is eligible for 'C=C' or 'Consent Only'. The Novation Consent Platforms will apply this logic to all Novation Consent Requests, and will include an identifier with each Novation, making it clear whether a Novation is being processed as "C=C" or "Consent Only". Both platforms have the same terminology in respect to this flag. The flag will be fully visible, to all three parties, at all stages of the consent process. For outside novations the flag will always read "Consent Only".

7. What is the 'Soft Launch'?

A: The industry go-live is September 30th, this is the go-live date which the FED 14 have committed to regulators. IceLink will turn on their 'C=C' functionality for the industry to have a slightly staggered go-live or 'Soft Launch' on August 30th 2010, at 9pm EST.

8. What happens to a trade when it is auto-expired?

A: If a Novation Consent Request expires, the Novation Consent Platform will provide appropriate messaging to inform all three parties of the expiry. Upon expiration there will be a mirror transaction, processed outside of the platform, requiring firms to go through the normal procedures for when a trade is deemed.

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9. If the underlying transaction is not confirmed as of T, but confirmed as of T+1, will the consent be as of T or T+1?

A: This depends if the novation consent request is in a pending or error status. If the original transaction is unconfirmed, the Transferor and Remaining Party will need to either confirm it or all three parties process an outside novation. If the original transaction was confirmed but there is an unconfirmed amendment or exit, the Remaining Party and Transferor have until 4pm by Novation Trade Date +1 business day to resolve the outstanding issue. If they are able to resolve the issue prior to the cut-off, and the trade is resubmitted at T+1, it will go into the consent process with the previous days' date as the Novation Trade Date.

10. Who are the Fed14?

A: These are the 14 Major Dealer firms who have signed the commitment letter to the Fed (see below list):

<i>Bank of America-Merrill Lynch</i>	<i>Deutsche Bank AG</i>	<i>Morgan Stanley</i>
<i>BNP Paribas</i>	<i>HSBC Group</i>	<i>UBS AG</i>
<i>Credit Suisse</i>	<i>Goldman Sachs & Co.</i>	<i>The Royal Bank of Scotland Group</i>
<i>Citi</i>	<i>J.P.Morgan</i>	<i>Barclays Capital</i>
<i>Société Générale</i>	<i>Wells Fargo Bank, N.A.</i>	

11. Is there a warning message to advise one of the parties is not FED 14?

A: Neither platform will tell you if the Transferee or Remaining Party are not Fed 14, however during the consent process the eligibility flag will indicate whether the trade is "C=C" or "Consent Only", at which point the user will be advised if the resulting novation confirmation will be sent fully into DSMatch and the Warehouse.

12. Will the process remain unchanged for ineligible trades?

A: The process for ineligible transactions remains unchanged. If the Transferor alleges an ineligible transaction for consent it will be processed outside the electronic platforms.

13. What is the reservation of notional?

A: The alleged novation amount on each Novation Consent Request is checked against the available notional inside the Trade Information Warehouse. The Warehouse reserves the notional amount stated on the Novation Consent Request, from any further activity, until the novation consent request is fully processed. Similarly, if the Transferor alleges a novation consent request for an amount greater than the amount available for assignment in the Trade Information Warehouse, the Novation Consent Request will not be processed.

14. Question on Business Days. It is mentioned that Business Days is Novation Trade Date + 1 Business Day. Is this defined anywhere, as we account for different regional holidays?

A: Both Novation Consent Platforms will apply London and New York business days(Please note that this is different to the answer given on the call, because the Additional Provisions were amended on this point after the pre-publication draft was circulated.)

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15a. Question regarding deemed trades. Now that the consenting period has been extended by a day, the process for deeming a trade is also extended. Has there been any discussion on what the implications of this are?

A: The Transferee will be able to deem or have a mirror trade on or after 6pm on The Novation Trade date, which reflects the current timing as per the Novation Protocol.

15b. My understanding is that the Remaining Party has until T+1 the following day to approve any novation?

A: Yes they do. The timing is as follows; the Transferor will submit their novation by 6pm New York time on the Novation Trade Date. The Remaining Party and the Transferee are required to respond promptly to the request. At 6pm New York time if the Transferee has consented but the Remaining Party has not, a deeming button to create a Mirror Transaction will be available for the Transferee. The latter is to provide certainty (for the Transferee) on T of who their counterparty is.. Also, the Remaining Party can at any point refuse the novation. At no point are the obligations of the Remaining Party removed or postponed due to this process.

16. What is the minimum novation amount that can be novated under 'C=C'?

A: There is no minimum requirement. So long as a trade is, 'Open', has a notional amount which is eligible to novate, and is certain in the Warehouse, any notional amount can be novated.

17. Will users need to opt in/out of these Additional Provisions, and if so, will we need to opt in once after the implementation date, or will we be required to sign each time we wish to perform a transfer by novation?

A: Users of a novation consent platform. The provisions will be incorporated by reference into the platform's rules. Before using the platform, Users would need to sign a general agreement to have transactions processed through the platform be governed by the platform's rules, as amended from time to time. (Users would already have signed this if they already subscribe to one of the platforms.) This is the only step necessary to opt into the new rules.

18. What will the timeframe for implementation of these Additional Provisions be?

A: They will be implemented at the time the relevant platform goes live with Consent = Confirmation. Currently this is planned for end of August 31, 2010 (ICELink) and end of December 6th 2010 (MarkitSERV).

19. How will existing novations be affected by these provisions?

A: The new rules will only apply to novations processed through the relevant platform after it goes live. Existing novations will not be impacted.

20. The deemed trade process, we follow what we do now, but it kicks in at a later date?

A: Correct, the hard cut off does not kick in on the Novation Trade Date. It is now on the Novation Trade Date +1 business day. However, the Transferee will have the option to deem a 'Live' Novation Consent Request after 6pm New York time on the Novation Trade Date.

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21. I've seen documentation that states only 'confirmed certain' transactions are eligible for 'C=C', yet on today's presentation it states trades that are certain and uncertain are eligible, which is correct?

A: To be eligible for 'C=C', the original transaction must have been previously confirmed and certain. However, with the exception of trades which are uncertain due to a pending amendment, exit, or illogical notional, it is possible for an uncertain transaction to be processed under 'C=C'. [For example, if the Transferor has a pending unconfirmed partial termination in the Warehouse, the original transaction is in an uncertain status due to the unconfirmed partial termination. However, in this scenario the notional portion which is not being partially terminated is still eligible for assignment. It is still possible to assign away the available remaining notional of the 'uncertain' original transaction.]

22. If the original trade is not confirmed and the assignment on that trade not fully consent by 6pm EST, what is the way around it?

A: You would have a Mirror Transaction and process as you would today with a Mirror Transaction.

23. Will the Novation Protocol and process we have today be discontinued?

A: No. Each User of a Novation Consent Platform, containing the additional provisions, by use of the platform agrees that the additional provisions (new rules) supersede the existing Novation Protocol for purposes of a novation consent request processed on the platform. The existing Novation Protocol will still be applicable for transactions outside the above scope.

24. I have a question regarding the fee tolerance for the new trades on the Novation Consent Platform? Is it the same as the dollar tolerance for open trades?

A: Both platforms have calculators on them, using the standard industry assumptions for single name and index calculation, and are available for use. Each fee must be matched down to the penny if in USD or equivalent currency unit.

25. Are Copper trades and trades which are Backloaded eligible for this?

A: Any trade that is confirmable in the Trade Information Warehouse is eligible. However, Copper Records are not 'Gold' and therefore any novations done on Copper Records would be considered 'Outside Assignments'. Single name Credit Default Swap Trades within the Trade Information Warehouse which have a populated ISDA Credit Derivatives Physical Settlement Matrix Publication date are also out of scope for "C=C". These trades are out of scope based on the difficulty in determining which Matrix version should apply.

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