

## **Frequently Asked Questions on Credit Derivative Initiatives**

ISDA continues to work together with their respective constituents to develop an industry implementation plan for a number of Credit Derivative initiatives. These Frequently Asked Questions (FAQ) explain the derivatives industry's standards in regard to operational processing for credit derivative transactions.

### **Credit Derivative Initiatives**

The derivatives industry has agreed to several standardized CDS contracts which aim to further standardize a number of variables.

The North American and European standardized products have been trading as of April and June 2009, respectively.

The Standard Australia and Standard New Zealand Corporate and Sovereign names and Emerging Market transaction types which include Standard Emerging Market names in Central and Eastern Europe, the Middle East, Africa and Latin America have been trading since September 2009.

In addition, the Emerging Market transactions have moved from semi annual to quarterly payments and full first coupons at the same time. These changes, with a goal to further standardization, follow the move from monthly to quarterly roll of maturity dates, which became effective on June 22, 2009.

Starting December 21, 2009, the Standard Japan Corporate and Sovereign names have started trading on either 25, 100 or 500 bps spread, while the Standard Asia and Singapore Corporate and Sovereign names have started trading on either 100 or 500 bps spread.

Similar to the Standard North American Corporate product, these will include a 60 day look back rolling Effective Date, standardized accruals, and auction hardwiring.

The current list of standardized product types include: Standard North American Corporate, Standard European Corporate, Standard Subordinated European Insurance, Standard Western European Sovereign, Standard Emerging European Corporate LPN, Standard Emerging European Corporate, Standard Latin America Corporate B, Standard

**Capitalised terms have the meaning given to them in the relevant ISDA definitional booklet**

**The precise documentation of each Transaction remains the responsibility of the parties concerned. ISDA assumes no responsibility for any use to which this Frequently Asked Questions may be put.**

**Each party following the recommendations contained in this Frequently Asked Questions should satisfy itself that those recommendations are appropriate to reflect the commercial intentions of the parties.**

Latin America Corporate BL, Standard Latin America Sovereign, Standard Emerging European & Middle Eastern Sovereign, Standard Australia Corporate, Standard New Zealand Corporate, Standard Australia Sovereign, Standard New Zealand Sovereign, Standard Japan Corporate, Standard Japan Sovereign, Standard Asia Corporate, Standard Asia Sovereign, Standard Singapore Corporate and Standard Singapore Sovereign.

**General Questions.....Page 2**

1. What transaction types are covered?
2. What change will be made to the Scheduled Termination Date?
3. What change will be made to Restructuring?
4. How will the coupon for these transactions be reflected?
5. Is there a change to the Accrual Start date?
6. For these trades, what value should firms put in the effective date field?
7. What are the changes to the Settlement Methodology?
8. When will these transactions start trading from a market perspective?

**Confirmation Questions.....Page 4**

9. Can these transaction types still be confirmed electronically?
10. What types of confirmations can I use to confirm my transactions?
11. When DTCC rejects trades due to incorrect information, will those trades make it into the system and be available for modification?

**General Questions**

---

**1. What transaction types are covered?**

These initiatives cover Standard North American Corporate, Standard European Corporate, Standard Subordinated European Insurance, Standard Western European Sovereign, Standard Emerging European Corporate LPN, Standard Emerging European Corporate, Standard Latin America Corporate B, Standard Latin America Corporate BL, Standard Latin America Sovereign, Standard Emerging European & Middle Eastern Sovereign, Standard Australia Corporate, Standard New Zealand Corporate, Standard Australia Sovereign, Standard New Zealand Sovereign transactions, Standard Japan Corporate, Standard Japan Sovereign, Standard Asia Corporate, Standard Asia Sovereign, Standard Singapore Corporate and Standard Singapore Sovereign.

**2. What change will be made to the scheduled termination date?**

The Scheduled Termination Date will always match a quarterly roll date. The Quarterly roll dates will always be March 20, June 20, September 20 and December 20. For clarification, the Scheduled Termination Date is still an unadjusted date. Accrual ends on and includes the unadjusted quarterly roll date eventhough the final payment is made on the adjusted roll date.

**3. What change will be made to Restructuring?**

None. All of these transactions will keep their relevant Restructuring type with the exception of Standard North American Corporate for which trading without Restructuring is the new standard but can be requested and agreed between the parties at time of trading

**4. How will the coupons for these transactions be reflected?**

Coupons will still be reflected as a percentage per annum, as per the below, and should be confirmed as the respective relevant coupon.

1% and 5%: North American Corporate, Australian and New Zealand Corporate and Sovereign, Emerging Market, Asia Corporate and Sovereign, Singapore Corporate and Sovereign Transaction types

.25%, 1%, 5%, 10%: European Transaction types

.25%, 1%, 5%: Japan Corporate and Sovereign Transaction types

**5. Is there a change to the Accrual Start date?**

Rather than starting on the Effective Date, accrual will begin on and include the last Quarterly Date (March 20, June 20, September 20 or December 20) on or preceding the Trade Date plus one calendar day. Similar to Indices, the Accrual Start date will be an adjusted date. There are full coupons and no short or long stubs. All settlements will be full coupons.

**6. For these trades, what value should firms put in the effective date field?**

It is suggested that firms continue to book and submit Trade Date + 1 as their effective dates to DTCC. DTCC will ignore this value for accrual purposes.

**7. What are the changes to the Settlement Methodology?**

All of these trades will be subject to Auction Methodology, with Fallback Settlement Method of Physical Settlement. The ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring Supplement to the 2003 Credit Derivatives Definitions applies to these trades, whether confirmed on paper or in DTCC, and will be incorporated into the DTCC Operating Procedures as well as the Matrix and long form template.

**8. When will these products start trading from a market perspective?**

The Standard North American and Standard European transaction types have been trading since April and June 2009, respectively. The Standard Emerging Market, Standard Australian and Standard New Zealand transaction types have been trading since September 2009. The Standard Japan Corporate, Standard Japan Sovereign, Standard Asia Corporate, Standard Asia Sovereign, Standard Singapore Corporate and Standard Singapore Sovereign have started trading since December 2009.

## Confirmation Questions

---

### **9. Can these transaction types still be confirmed electronically?**

Yes. DTCC will support these changes.

### **10. What types of confirmations can I use to confirm my transactions?**

*Matrix:* ISDA have published an updated Matrix that includes new tab for all of the Standard Transaction Types. Version 12 of the Matrix includes the "Standard Australia Corporate", "Standard Australia Sovereign", "Standard New Zealand Corporate", "Standard New Zealand Sovereign", "Standard Emerging European LPN", "Standard Emerging European Corporate", "Standard Latin America Corporate B", "Standard Latin America Corporate BL", "Standard Latin America Sovereign" and "Standard Emerging European & Middle Eastern Sovereign" Transaction Types. Version 13 of the Matrix includes the "Standard Japan Corporate", "Standard Japan Sovereign", "Standard Asia Corporate", "Standard Asia Sovereign", "Standard Singapore Corporate", and "Standard Singapore Sovereign" Transaction Types. This is the preferred means of confirming these transactions.

*Master Confirmation Agreement (MCA):* the respective Transaction Types that firms submit to DTCC will be called:

"ISDA2004StandardCreditSovereignEmergingEuropeanAndMiddleEastern",  
"ISDA2004StandardCreditSovereignLatinAmerican",  
"ISDA2003StandardCreditAustraliaNewZealand", "ISDA2003StandardCreditJapan",  
"ISDA2004StandardCreditSovereignJapan", "ISDA2003StandardCreditAsia",  
"ISDA2004StandardCreditSovereignAsia", and "ISDA2003StandardCreditSingapore" for trades confirmed under a MCA. As this will be defined in the DTCC Operating Procedures, no changes are necessary to executed MCAs or the DTCC Standard MCA. You will continue to confirm these with the MCA date you currently use to confirm these transaction types. Please note however, like the current versions of these Transaction Types, the following are not confirmable in DTCC under MCA: Standard Australia Sovereign, Standard New Zealand Sovereign, Standard Emerging European LPN, Standard Emerging European Corporate, Standard Latin America Corporate B, Standard Latin America Corporate BL, Standard Singapore Sovereign

*Paper Confirmations:* if firms are unable to confirm in DTCC, the trade will need to be confirmed on either a Matrix Confirmation or long form confirmation.

### **11. When DTCC rejects trades due to incorrect information, will those trades make it into the system and be available for modification?**

Yes. Those trades will go into a rejected status.

**For questions, please contact:**

**ISDA®**

Nichole Framularo  
(212) 901-6034  
[nframularo@isda.org](mailto:nframularo@isda.org)

**ISDA®**

Jeffrey Kan  
(852) 2200 5900  
[jkan@isda.org](mailto:jkan@isda.org)

**ISDA®**

Kumi Namba  
(813) 5733-5500  
[knamba@isda.org](mailto:knamba@isda.org)

**ISDA® Credit Operations Chair**

Tara Kruse  
(212) 762-5003  
[tara.kruse@morganstanley.com](mailto:tara.kruse@morganstanley.com)

**ISDA® APAC Credit Operations Chair**

James Pike  
(852) 2848 1918  
[james.pike@morganstanley.com](mailto:james.pike@morganstanley.com)