

# **CD Settlement Standards**

## ***Introduction***

The following principles have been agreed in the ISDA Operations Credit Derivatives Cash Settlement Working Group. The institutions listed below<sup>1</sup> agreed to apply the standards starting with the March 20 2006 roll date between the working group members. Originally used as standards between dealers, the working group would like to engage the user community in this discussion and apply the same standards with the users after acceptance of the principles.

## ***Honor Payment Obligations***

In a scenario where Party A pays Party B, however payment was due to Party X; the following principles apply for the different parties involved.

This assumes the error has been identified initially by the non-recipient (“X”)

- X informs A that it has not received due funds
- A investigates and identifies it paid in error to B
- A contacts B to request investigation and return of funds
- A provides relevant reference numbers where known
- A confirms to X that funds are valid and honors the agreement within 3 working days of agreement of obligation
- B investigates as a priority and returns to A within 5 working days

This process would ensure all breaks at all 3 institutions are resolved in a timely manner.

## ***Affirmation***

The recommendation is for the paying party to own accountability for obtaining an affirmation of cash flow details for the first coupon. Where cash flow details are unmatched or not affirmed (either within or outside of the DTCC process) the paying party should drive the liaison with the receiving party to obtain an affirmation of the first coupon prior to payment.

## ***Unapplied funds***

The above Affirmation recommendation should reduce the level of unapplied funds however, should a receiving party (B in the above scenario) not recognize the funds the following principles apply:

- Receiving party B owns contacting the paying party A to obtain further information prior to returning the funds

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<sup>1</sup> Institutions that agreed to follow these standards: Bank of America, Barclays, Citibank, Bear Stearns, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, Lehman Brothers, JP Morgan, Merrill Lynch, Morgan Stanley, Royal Bank of Scotland

- Receiving party B is entitled to return the funds where the paying party A has not supplied the information required within 30 calendar days starting from the receipt of funds, but not earlier than 7 calendar days after first contact. The return is not mandatory but should not happen before the 30 calendar days are over.
- Sending party needs to send trade details and/ or a document with the funds e.g. a novation document.

### ***Escalation***

Escalation contacts for the firms can be found on the ISDA website, in the member portal under “Institutional Contact and CEN Contact Information”