

1. Introduction

1.1. History of FpML

From the early 1980s when the interest rate swaps market began developing, the privately negotiated derivatives have grown tremendously in volume. According to the report on Derivatives Market Activity from the Bank for International Settlements, the notional principal outstanding of swaps and other over-the-counter (OTC) derivatives, stood at \$95 trillion in 2000, doubled by the end of 2003 (\$197 trillion), and reached \$614 trillion in December 2009. This corresponds to a 23% annualized growth rate over this nine-year period.

To lower the cost of processing derivatives and thereby increase the profitability of the business, JP Morgan (now JPMorganChase), in 1997, established a research project to develop the methodology by which these instruments can be traded using e-commerce technologies. PricewaterhouseCoopers was brought on board as a resource, and in 1999 the organizations announced a draft standard for interest rate swaps. At that time, other industry firms were contacted and an independent organization – FpML.org – was formed to develop and promote the Financial products Markup Language (FpML) as an XML-based “lingua franca” for derivatives trading.

The FpML standard is freely licensed and is intended to automate the flow of information between derivatives participants, independent of the underlying software or hardware infrastructure, supporting activities related to these transactions.

On November 14, 2001 ISDA and FpML.org announced their intention to integrate the development process of the FpML standard into the ISDA organizational structure. This combined the organizational strengths of ISDA with FpML’s technology base and allowed the FpML standard to be leveraged using the membership base and experience ISDA has built up since its formation in the mid 80s. The change is an indication of the increased importance of operations, automation and straight-through processing for the ISDA membership.

Expansion of the FpML standard to new products (e.g., correlation swaps, commodities) and business areas (e.g., regulatory reporting, collateral management, syndicated loan) and adoption by new users has continued under ISDA’s sponsorship. Because of the rapid expansion of the standard and applications of the standard, and because of the increasing number of newcomers to FpML, there has been a growing need to provide introductory material to help users new to FpML understand how to use the standard. This user guide to FpML is intended to address this need.

1.2. About this User Guide

1.2.1. Purpose

The User Guide to FpML provides guidance to implementers about how FpML may be used by derivative market participants. It suggests applications for FpML, describes at a high level how to write FpML, and provides guidance on related topics.

The User Guide is complementary to the FpML standard specification, and is not a replacement for that specification. It describes specific instances and examples of using FpML, where the FpML specification provides a comprehensive reference and full schema description.