

ISDA Master Agreement Negotiation Survey

Summary of Results

April 2004

As derivatives activity increases and firms face the need to document a growing number of derivatives trading relationships, documentation professionals are coming under increased front office pressure to expedite the negotiation and execution of ISDA Master Agreements. But at the same time, competitive pressures are forcing firms to cut staff and accomplish more with fewer resources. In this environment, documentation professionals at ISDA member firms have looked for data on the average time it takes to negotiate an ISDA Master Agreement. Such data could be useful for at least two reasons. First, a documentation manager could use the data to benchmark an institution's ISDA Master Agreement negotiation times against industry standards. Second, a manager could use the data to support requests for additional staff and other resources.

As a result, in January 2004 ISDA initiated the ISDA Master Agreement Negotiation Survey. The objective of the Survey is to quantify ISDA Master Agreement negotiation times in a manner useful to managers. The Survey did not include times required to complete credit support documentation. Further, the Survey covered only the negotiation times experienced by the documentation function, and not negotiation time involving other functions such as credit. The Survey was a one-off effort, and covered Primary and Subscriber Members as well as law firm Associate Members.

A total of 96 ISDA member organizations participated in the Survey. Of the total, 62 were Primary Members, 25 were Subscriber Members, and 9 were Associate Members (Chart 1). The majority of respondents—77 percent—came from Europe and the Americas (Chart 2). As with all ISDA surveys, access to responses was strictly limited to selected ISDA staff. No employees of ISDA member firms or any other outsiders had access to responses other than their firm's own. The following sections report the results; more detailed numbers are in the Appendix.

Chart 1 Survey respondents by membership type

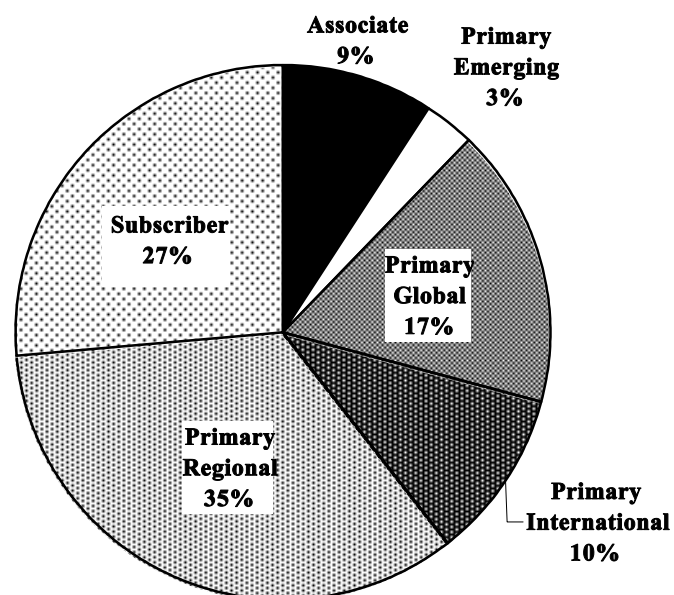
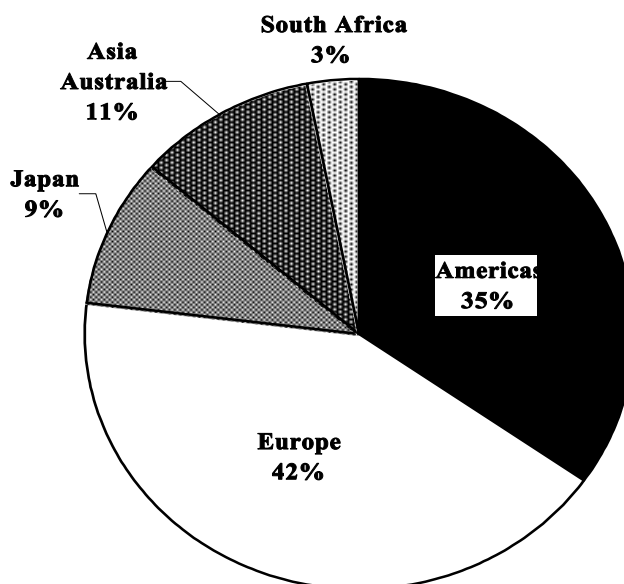


Chart 2 Survey respondents by location



Survey Results

The Survey asked three questions.

1. What percent of your firm’s ISDA Master Agreements are executed within [a set of eight time buckets ranging from less than thirty days to more than one year].
2. Does your firm discuss credit terms—for example, agreeing credit downgrade clauses—prior to commencement of the formal ISDA documentation process¹?
3. Do you allow derivative trades with a counterparty prior to executing the Master Agreement?

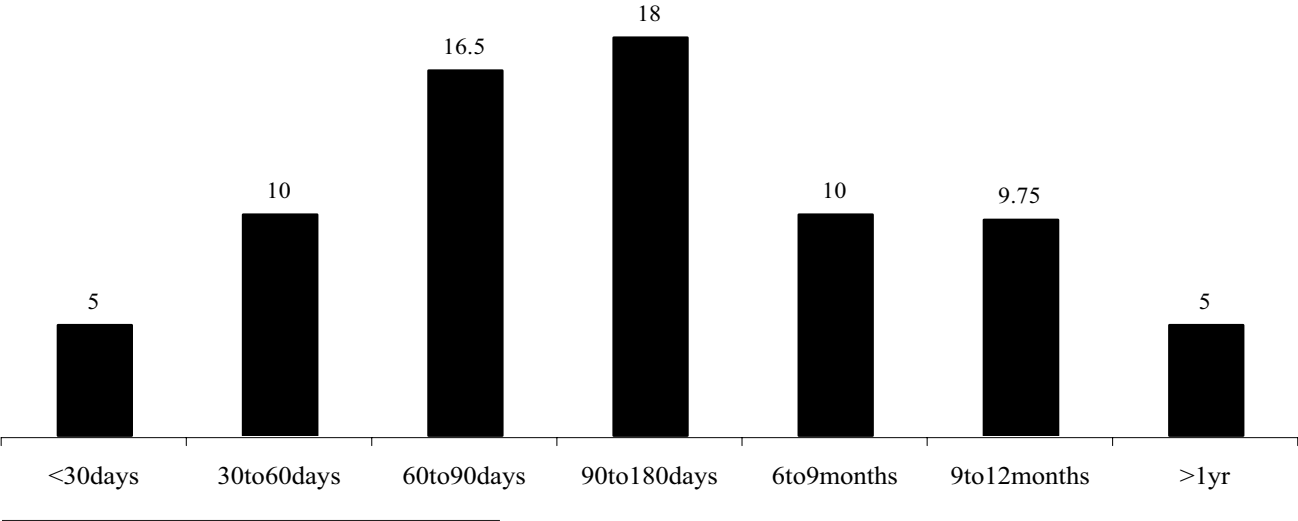
The first question is the primary focus of the Survey, that is, determining benchmark negotiation times for the ISDA Master Agreement. We excluded negotiation of credit support documentation, however, because not all firms assign responsibility for credit support negotiations to the documentation function.

Second, we attempt to distinguish between firms in which key credit terms are negotiated by the documentation function from those in which the terms are negotiated by the credit (or similar) function prior to the documentation function’s involvement. We will report results according to how respondents answered this question.

Finally, the third question seeks information on firm policies regarding trading in the absence of an executed ISDA Master Agreement. We asked firms to describe the restrictions they commonly impose on trading prior to Master Agreement execution. We will discuss these results in the last section.

Results for full sample. Chart 3 presents the distribution of negotiation times reported by all respondents combined. We report median negotiation times because they are less influenced than are means by extreme observations. On average, it takes between 60 and 180 days for members to come to an agreement. But since there is significant dispersion in the results—that is, the extreme results of less than 30 days and more than 1 year are not unusual—the average completion time contains little information. The Appendix provides more detailed summary statistics.

Chart 3 Percent of ISDA Master Agreements executed within designated times, full sample
Median percents by time bucket

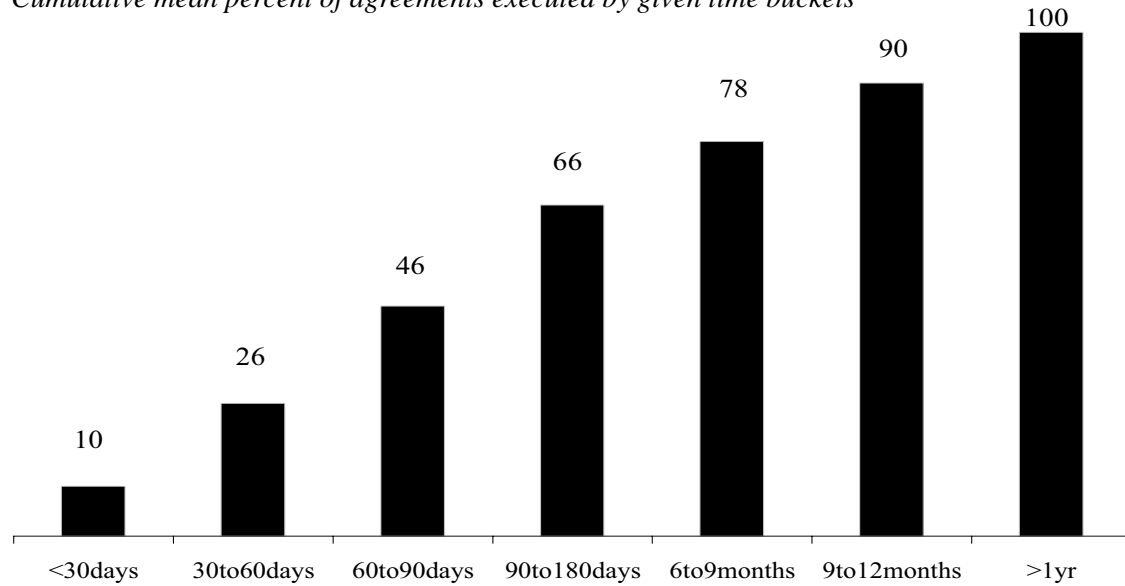


¹ The ISDA documentation process commences with the receipt of credit terms from the credit approval function of a firm and ends with final execution of an ISDA Master Agreement and delivery of any required documentation.

Chart 4 presents cumulative mean percentages of ISDA Master Agreements completed. For example 26 percent of agreements are completed within 60 days, 46 percent within 90 days, and so on. In this chart, we use mean negotiation times to compute cumulative times because of the necessity for cumulative percentages to add up to 100 percent.

Chart 4 Percent of agreements negotiated by designated times, full sample

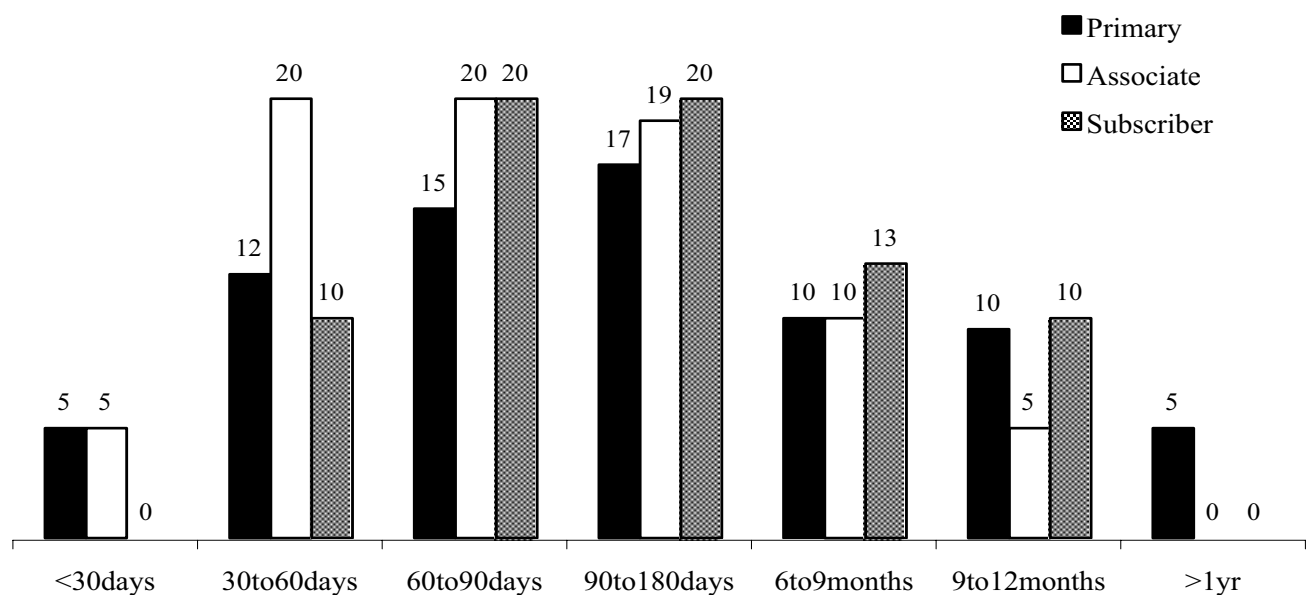
Cumulative mean percent of agreements executed by given time buckets



Results by member type. Chart 5 separates the median completion times according to the three ISDA membership categories, Primary Members (dealers), Subscriber Members (end-users), and Associate Members (limited in this Survey to law firms acting on behalf of clients). The results suggest faster completion times for Associate Members, but such results should be interpreted with caution because of the relatively small number (nine) of law firms responding.

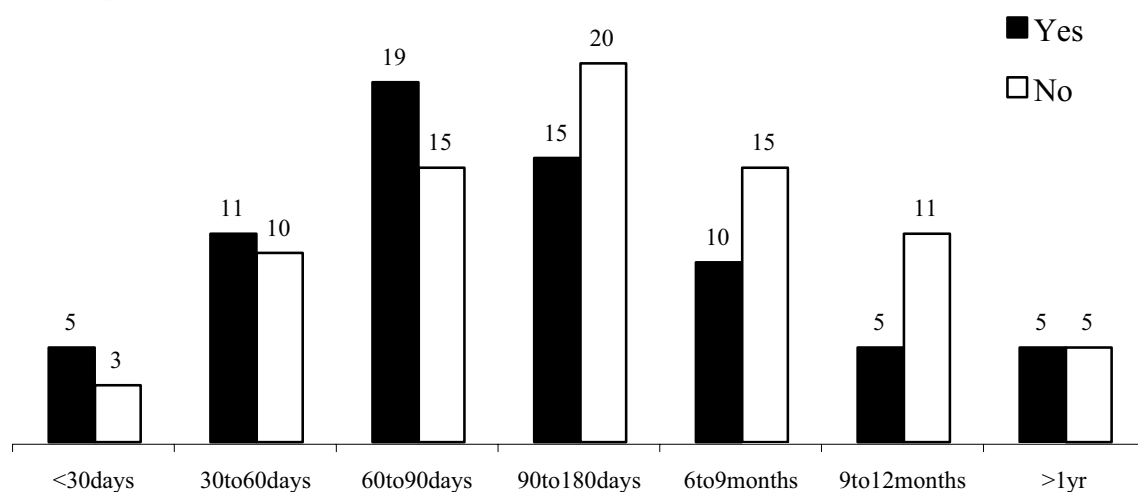
Chart 5 Negotiation times by major membership category

Median percents by time bucket



Prior credit negotiations. We understand from member firms that delays in negotiations sometimes occur in the process of negotiating key credit terms such as additional termination events and downgrade triggers. At some firms, however, these key terms are negotiated by the documentation function while at others they are negotiated by the credit (or similar) function prior to the beginning of the formal ISDA negotiation process. Possibly, those firms that separate credit from other documentation negotiations will report shorter times simply because they do not observe the time that was used in the preliminary negotiations. Charts 6 therefore attempts to provide a finer measure of benchmarking times by separating respondents into firms that conduct prior negotiations (‘Yes’) and those that do not (‘No’). The results suggest that firms conducting prior credit negotiations report faster completion times, but this result is more pronounced among Subscriber Members and Associate Members. If we were to report only Primary Member results, in contrast, the effect of prior negotiations would be ambiguous.

Chart 6 Negotiation times according to whether respondent conducts prior credit negotiations
Median percents by time bucket



Results by region. Finally, Charts 7a and 7b shows how median negotiation times differ for four major ISDA membership regions, namely, Europe (including South Africa), Americas, Japan, and Asia Pacific.

Chart 7a Negotiation times by region, Americas and Europe
Median percents by time bucket

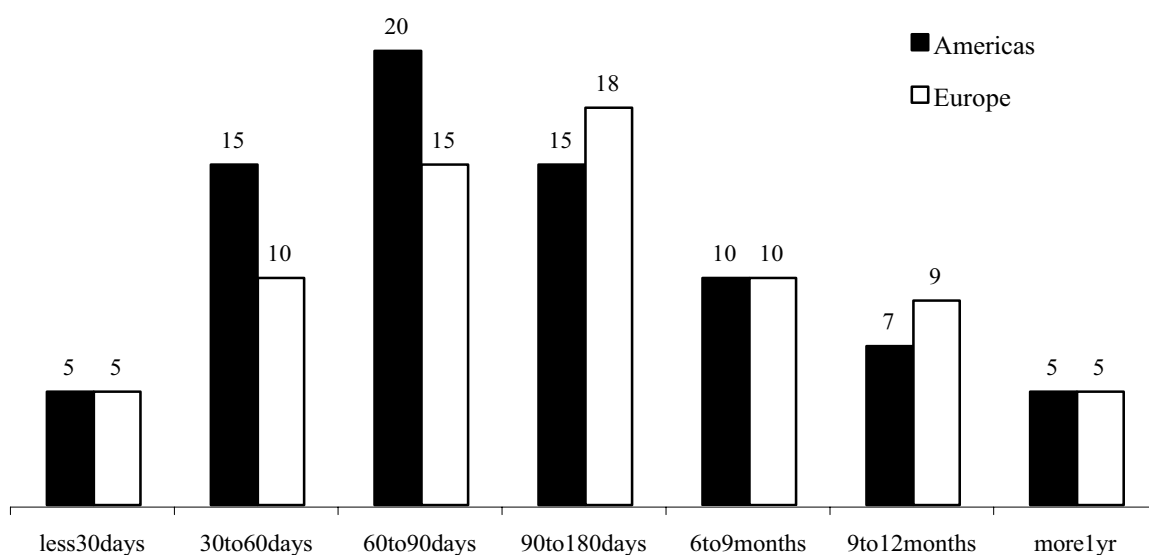
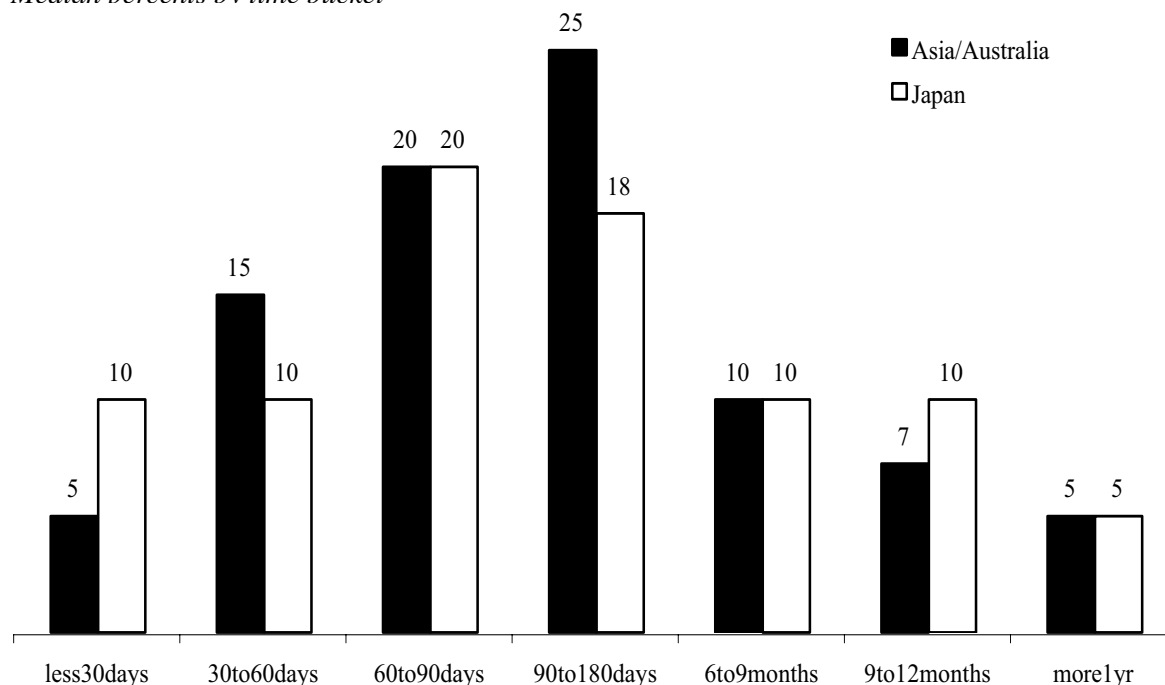


Chart 7b Negotiation times by region, Asia-Australia and Japan

Median percents by time bucket



Trading prior to execution of ISDA Master Agreement. The Survey also asked respondents whether and under what conditions they allow derivatives trades prior to execution of a Master Agreement. Table 1 shows the results. Primary Members tend to allow trading but subject to restrictions, while Subscriber Members tend not to allow trading prior to execution. We assume that Associate Member policies reflect the policies of the firms they represent.

Table 1 Policies toward derivatives trades prior to execution of Master Agreement

<i>Percents</i>	No	Yes	Yes (restricted)
<i>Primary</i>	12	13	75
<i>Subscriber</i>	60	4	36
<i>Associate</i>	14	29	57

Among those that responded that they allow trading subject to restrictions, the most frequently reported restrictions are the following.

- Use of ISDA Long-form Confirmation
- Agreement to start Master Agreement negotiations
- Prior approval of credit risk department, along with individual credit terms for each trade
- Limited number of trades before execution of the Master Agreement
- Counterparty is a financial institution

In addition, some respondents report that they place restrictions on deal maturity and counterparty quality. Among those that agree to start Master Agreement negotiations, there might be further conditions that the Master Agreement be signed and executed within a specified period—ranging from 90 days to one year—after the date of the first trade. In some firms, there might even be an additional termination event or ‘tear-up’ of a trade if the Master Agreement is not in place by the required time.

Appendix Summary statistics by membership category

Percents

	<30days	30to60days	60to90days	90to180days	6to9months	9to12months	>1yr
<i>Full sample</i>							
Mean	10	16	19	20	13	12	10
Median	5	10	17	18	10	10	5
Standard deviation	15	16	16	14	11	13	15
N=96							
<i>Primary members</i>							
Mean	10	17	18	20	12	12	11
Median	5	12	15	17	10	10	5
Standard deviation	12	15	16	13	9	14	13
N=62							
<i>Subscriber members</i>							
Mean	6	16	22	21	15	13	7
Median	0	10	20	20	13	10	0
Standard deviation	17	18	18	15	14	14	11
N=25							
<i>Associate members</i>							
Mean	16	21	21	19	10	8	5
Median	5	20	20	19	10	5	0
Standard deviation	24	16	16	16	10	10	12
N=9							

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ISDA, chartered in 1985, numbers over 600 members across six continents. Its members include most of the world's major commercial, universal and investment banks as well as other companies and institutions active in swaps and other privately negotiated derivatives transactions.

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