

May 17, 2012

Creation of a Blended Volume Weighted Average FX Swap Rate for the ISDA Standard Credit Support Annex

1.1 Background

The ISDA Collateral Steering Committee (the "Collateral SC") is leading the development of the Standard Credit Support Annex ("SCSA") for the OTC derivatives market. The Collateral SC has charged the SCSA Rate Fixing Work Stream (the "Working Group") to develop a series of common rate fixings that are required to support the SCSA in a consistent manner across the market (the "ISDA SCSA Rates"). These rates include spot FX, FX swap and OIS rates.

The Working Group has determined that the required FX swap rate fixing should be based on a blended actual volume weighted average trading rate for Tom/Next swaps for USD vs the 17 reference currencies listed below:

USD, EUR, JPY, GBP, CHF, CAD, AUD, SEK, CZK, DKK, HKD, HUF, NOK, NZD, PLN, SGD, ZAR

These currencies are subject to change and may be supplemented or removed at any point at the request of ISDA.

"Tom/Next swap" refers to a transaction executed on a given day T in which one party (a) on date T+1 delivers USD and receives the relevant reference currency in return, and (b) on a date T+2 delivers the reference currency and receives USD in return.

1.2 Rate Specification

- I. The Tom/Next swap rates should be based on actual trading data, not price indications.
- II. All brokers are invited to be on the contributor's panel. The Working Group would like the panel to be as wide as possible.
- III. Brokers are asked to provide their volume and the average price for each currency pair (USD vs currencies above) over a pre-determined daily window¹ to an independent calculation agent. The independent calculation agent will calculate a blended weighted average for publication.
- IV. The published rate will be branded as the "ISDA FX Swap Rate". The contributor panel will be public, but the individual daily submissions will not be. Only the blended rate will be published, not the total volume that was used in its computation.

¹ For example, 7am to 11am London time for certain currencies. The window will vary for currency pairs in order to capture the core hours of highest liquidity for each pair.



- V. Market participants will be permitted to use the ISDA FX Swap Rates to support their SCSA computations and for other purposes. In addition, all contributors to the rate, the independent calculation agent and the service provider which publishes the rate, will be licensed to use the published rate for other commercial purposes in their discretion
- VI. The Working Group desires that the ISDA FX Swap Rates be created and ready to go live by end of Q2 2012. It is anticipated that the market will operate the SCSA in a test mode for a period, and feedback from this process into the specification for the ISDA FX Swap Rates should be anticipated.
- VII. It should be noted that ISDA retains all legal interests in the SCSA and has the right to add or remove contributing panel members, amend, extend or cease the rate fixing process at any time, and select another rate source at any time and in its sole discretion.

1.3 <u>Responses</u>

Please advise Anna Box (<u>abox@isda.org</u>) by 9am London time Monday 28th May 2012 if you would be willing to contribute to this blended rate and details of what you would be able to contribute. Please also contact Anna if you have any questions about this specification or the SCSA in general.