ISDA®
International Swaps and Derivatives Association, Inc.

<u>**Best Practice Guidelines**</u>

**Drafting, Affirmation and Risk Mitigation
in connection with Interest Rate Products Transactions**

<u>Background:</u>

The following Best Practice Statement contains a set of target confirmation turnaround times and suggested timeframes for escalating documentation issues between market participants when confirming interest rates product transactions. Further to drafting and affirmation procedures, this paper also addresses risk mitigation as a tool to reduce risk.

The suggested targets are intended to be a 'best effort' documentation protocol and not to be legally binding on any institution. Although compliance with these Best Practice Guidelines is generally voluntary, it is recommended that both sell and buy-side institutions adhere to them as the signatories of this statement believe that the industry will benefit by tightening confirmation times and escalation procedures.

As part of the commitments made to their regulators in October 2008, the members of the Operations Management Group (OMG) commit to adhere to these standards as of March 31, 2009.

The ISDA Operations Interest Rates Products Working Group together with the OMG's Rates Implementation Group (RIG) recommends the following confirmation process targets:

<u>Drafting:</u>

- Timely issuance is critical to getting trades confirmed in a timely manner. The below table sets out the recommended timeframes for the issuance of electronic, vanilla and structured confirmations.
- For the purpose of this document, the term 'Vanilla' shall be defined as any trade that can be processed on an electronic platform or has an ISDA published standard template.

Type of Transaction	Timeframe post Trade Date
Electronic	T+1 business days
Vanilla Paper	T+2 business days
Structured	T+10 business days

<u>Risk Mitigation:</u>

- In the absence of a fully executed confirmation, it is critical that trades are risk mitigated. Risk mitigation is meant to ensure that the key economic fields which would result in an economic loss should they be incorrect, are tied out between the two counterparties. The target to complete risk mitigation is T+5.

It was agreed that the following key economic fields must be matched before a trade is considered risk mitigated. This applies to both paper and electronic confirmations. It is also strongly recommended to obtain the counterparty deal reference number during this process. When performing risk mitigation with allocating clients, it is recommended to risk mitigate at the allocation level.

- Product
- Counterparty Name
- Currency
- Notional
- Effective Date
- Termination Date
- Fixed Rate
- Direction
- Spread
- Day Count Fraction

Although it is acknowledged that in the case of Novation consents not all of the above information is always given, market participants should nevertheless aim to confirm as many fields as possible. Ideally, procedures for Novations should be in line with those applicable to new trades.

It was further agreed that the following communication methods are acceptable means of conducting risk mitigation (so long as it contains all of the above fields):

- Phone (preferably via recorded lines)
- E-mail
- Trade recap to clients with positive affirmation
- Broker confirmation
- Reconciliation of Bloomberg or Reuters messages
- Return of a marked up confirmation with queries on fields other than the key fields indicated above

Confirmation/Execution:

- Full execution of legal confirmations or a Confirmed status on an electronic platform.

For paper based confirmations

Matching / signing turnaround time (All events)	Execution expectation	Initial chasing	Counterparty to return fully executed Confirmation or notify of query	Critical escalation point
Vanilla	30 calendar days	5 business days	10 business days	T+15 business days T+21 calendar days
Structured	30 calendar days	10 business days	15 business days	T+20 business days T+28 calendar days

For electronic based confirmations

Matching / signing turnaround time (All events)	Execution expectation	Initial chasing	Escalation	Critical escalation point
All types of transaction	5 business days	2 business days	3 business days	4 business days