ISDA Publishes First Digital Definitions for Interest Rate Derivatives

NEW YORK, June 14, 2021 – The International Swaps and Derivatives Association, Inc. (ISDA) has published an updated and enhanced version of its landmark definitional booklet for interest rate derivatives, marking a big step in the shift to digital documentation.

The 2021 ISDA Interest Rate Derivatives Definitions are the first ever to be published as a natively digital definitional booklet, and are available via ISDA's new electronic documentation platform, MyLibrary. The digital format will create significant efficiencies in how firms use and interact with the definitions, reducing complexity and the potential for error.

The new definitions consolidate the 70-plus supplements to the previous ISDA 2006 Definitions into a single electronic booklet for ease of use. In the future, ISDA will republish a revised digital version of the 2021 Definitions in full each time updates are required, eliminating the need for further supplements. Users will be able to easily access a single golden-source version of the definitions that applied at the time of any trade, as well as compare different versions of the definitions via the MyLibrary platform.

"Interest rate derivatives are the largest segment of the derivatives market, with a gross market value of $11.3 trillion. It's therefore vital that firms are able to easily determine the terms of their trades without having to manually pull together the definitional booklet plus 70-odd supplements in paper or PDF form. Advances in technology mean we can publish the 2021 Definitions digitally, making that process much quicker and more efficient and reducing the potential for error. The financial services industry can't continue to live in paper-based ecosystem when the rest of the world is moving to a completely digital strategy," said Scott O'Malia, ISDA's Chief Executive.

As well as being published in purely digital form, the 2021 Definitions incorporate a number of updates to reflect various changes in market practice and regulation, including:

- The methodology used to determine a cash settlement amount for swaptions and trades subject to early termination has been replaced to align with current collateral and valuation practices;
- The naming conventions for floating rate options have been amended to make them more standardized, with the publication source removed as a defining characteristic to help streamline the definitions;
- Certain payment and calculation provisions have been revised to make the definitions more robust in the face of market closures;

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- A new fallback trigger has been introduced that would take effect if a party is prohibited from using a benchmark to perform its obligations. Generic fallbacks have also been added for those floating rate options without existing fallback arrangements, complementing the existing ISDA fallbacks for interbank offered rates;
- The calculation agent provisions have been modified, with the addition of a framework for disputing determinations made under the cash settlement and generic fallback methodologies.

More generally, the definitions use formulae instead of legal narrative to describe concepts such as day-count fractions and interpolation to make them easier to consume by machines. Over time, the mechanics of the definitions will also be available via open-source code and aligned with ISDA's Common Domain Model. This will allow information contained in the definitions to automatically flow through to trading, operational and risk management systems in a consistent way.

"The 2021 Definitions are the result of a root-and-branch review of the interest rate definitions and reflect in-depth feedback from both buy- and sell-side market participants. The aim was to keep what works in the 2006 Definitions, but to update them where necessary to make them more resilient and in line with current conventions. Combined with the cutting-edge digital functionality, we now have a set of definitions fit for the next 15 years and beyond," said Katherine Tew Darras, ISDA's General Counsel.

The 2021 Definitions are scheduled for implementation over the weekend of October 2/3, 2021. While firms can continue to use the 2006 ISDA Definitions, ISDA will stop updating them following implementation of the 2021 Definitions.

The 2021 ISDA Interest Rate Derivatives Definitions are available here.

Click here to read a fact sheet on the 2021 Definitions.

Click here to watch a short animation on the new definitions.

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About ISDA
Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 950 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.