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Memorandum on the recommendation to reduce the frequency of Single Name CDS Rolls

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*This note has been prepared by ISDA's Credit Steering Committee (the "**CSC**") to explain the CSC's recommendation for reducing the frequency of which Single Name CDS transactions roll to the new 'on-the-run' contract. This note does not constitute legal advice to any interested person from ISDA or the CSC. Further, neither ISDA nor the CSC undertake any duty of care, nor shall they otherwise be liable, to any interested person.*

Market participants have advised ISDA that an amendment to the schedule by which Single Name CDS roll[1] to the new 'on-the-run' contract is likely to improve liquidity in the market, and be a general improvement to current market structure. The Credit Steering Committee has been asked to consider a proposal which would recommend a new standard schedule by which Single Name CDS move to new 'on-the-run' contracts, an amendment from a quarterly frequency to a semi-annual frequency, further aligning Single Name CDS with indices. It is important to note, that the proposed change is only in respect to the schedule of when market participants begin trading the new 'on-the-run' Single Name CDS contract, and does not change other aspects of the Single Name CDS contract, such as coupon settlement days or other structural components of the contract (i.e. standard fixed rates or ISDA Credit Derivatives Physical Settlement Matrix ("Matrix") conventions).

After consideration of the above proposal, the CSC recommends that the proposal be considered the new standard convention for when Single Name CDS roll. There is ***not*** a requirement for any participant to use the proposed roll calendar. Market participants are free to continue using the current calendar if they so choose.

What will change from the current convention?[2]

Current Convention**:**

In the current convention, each quarter on the 20th of March, June, September, December the market moves to a new on-the-run contract (i.e. on June 20, 2015 there was a move to the new 5yr September 20, 2020) which is the 'on-the-run' contract until the end of the quarter.

Proposed Convention**:**

The proposal is to only roll to new contracts in March and September. For example, on September 20, 2015 firms will switch to trading the December 20, 2020 maturing contracts as 'on-the-run' and will trade them for a full 6 month period (September 20, 2015 through March 19, 2016), at which point they will roll to contracts maturing June 20, 2021.

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[1] The term 'Roll' is being used in reference to moving from one standard contract to a new contract, similar to how Credit Indices work.

[2] The example dates used assume that the contracts which are being traded have five year maturities (5Y). The five year tenor is only used for example purposes, non-5Y contracts with differing tenors will use a similar rolling convention, with dates appropriate for that tenor.

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What are the expected benefits of the proposed change?

Market participants who support the proposal have advised ISDA that there are several benefits to the change. Below are some of the expected benefits which those participants have provided to ISDA. Those participants have advised that the change is expected to:

- improve liquidity surrounding the new semi annual roll dates
- increase clearing of eligible Single Name transactions, including increased buy-side participation
- improve the affordability of the product, by reducing capital costs
- increase netting fungibility
- be a general improvement to the current market structure (e.g. further aligning Single Name CDS with Credit Indices)

Additional Information

A more detailed implementation schedule for the above change will be forthcoming. For more information pertaining to this memorandum please visit ISDA's website ISDA's website or contact cdsquestions@isda.org