ISDA Safe, Efficient Markets

November 11, 2021

Letter to all users of derivatives from Scott O'Malia, CEO of ISDA, regarding cessation of support for the 2006 ISDA Definitions and adoption of the 2021 ISDA Interest Rate Derivatives Definitions

You are receiving this letter as part of your dealer's outreach around moving onto the *2021 ISDA Interest Rate Derivatives Definitions*[1] which were published in June this year as a replacement for the *2006 ISDA Definitions*.

We believe that the reasons to transition onto the new definitional book are manifold and compelling. Most global CCPs (representing around 70% of all interest rate trades) have already moved onto the 2021 Definitions and major participants in the non-cleared markets have either already implemented them or committed towards their rapid adoption. Combined with the benefits to be gained from using the new definitions and the rapidity with which we expect the 2006 Definitions to become outdated, I'm sure you will agree with our view that the time to engage with this process is now.

End of Support for the 2006 Definitions

The 2006 Definitions have played a pivotal role in the interest rate derivatives markets for the past 15 years, including introducing robust fallbacks for interbank offered rates like LIBOR. They have also been widely used in derivatives relating to other asset classes (such as equity derivatives) to describe interest rate cashflows.

They are, however, well past their best. In order to understand the terms of a trade executed today, market participants have to wade through nearly 90 supplements (amounting to over 600 pages of amendments) as well the main book. That is clearly not a sustainable situation. And even with all those amendments, the 2006 Definitions have fallen behind the times in certain key areas.

Given these issues, ISDA has announced that it will **stop** supporting the 2006 ISDA Definitions following October 4th 2021[2]. This means that when new amendments, fallbacks or Floating Rate Options have to be initiated, ISDA will only update the 2021 Definitions and will not produce Supplements for the 2006 Definitions.

---

[1] For more information on the 2021 Definitions, please visit https://www.isda.org/2021/10/04/2021-isda-interest-rate-derivatives-definitions/

[2] An existing pipeline of Supplements is being published after October 4th, 2021, but ISDA does not intend to initiate new amendments once that pipeline runs dry. Protocols used to amend legacy trades will continue to apply to trades that reference the 2006 Definitions for the foreseeable future.

International Swaps and Derivatives Association, Inc.
25 Copthall Avenue, 3rd Floor
London EC2R 7BP, United Kingdom
P 44 (0) 20 3808 9700
www.isda.org

NEW YORK WASHINGTON
LONDON BRUSSELS
HONG KONG SINGAPORE
TOKYO

ISDA

Improvements under the 2021 Definitions

While the new 2021 Definitions retain a significant amount of what continues to work well in the 2006 Definitions (including the IBOR Fallbacks), we believe some of their key changes represent a quantum leap forward for buyside and corporate end users[3]. In particular:

- Publication of the 2021 Definitions on the ISDA MyLibrary[4] platform means they can be amended and restated in their entirety each time they require updating. That means no more juggling Supplements. The platform highlights changes between versions so you can always have a consolidated view of how they have evolved over time

- The Calculation Agent's duty in acting and making determinations has been upgraded[5] to a more objective standard

- Parties now have the right to request a statement setting out the Calculation Agent's determinations in reasonable detail including Relevant Market Data they relied on and additional rights to challenge the determination by submitting their own Relevant Market Data

- The procedures used to determine the value of swaps that are early terminated or swaptions that are cash settled have been improved, with the old broadly-drafted 'Cash Price' methodology replaced by new Cash Settlement methods that strictly prescribe the basis of determination. We believe that will significantly reduce the scope for Calculation Agents and quoting banks to have to use potentially subjective interpretation on whether to include or exclude key economic inputs

- Trades can now include standard Cash Settlement methodologies which give buyside parties the right to nominate some of the reference banks that are approached for quotations and even to request those quotations themselves.

Reasons to transition and next steps

We understand that transitioning to the 2021 Definitions may feel disruptive and that some may prefer to stick with what they know. Adopting the 2021 Definitions, though, will avoid continuing to reference a set of definitions which will rapidly become stale.

It will also result in non-cleared trades aligning with the cleared market. Most major CCPs globally now reflect the 2021 Definitions in their rulebooks[6]. That means, while CCPs continue to accept both 2006 Definitions trades and 2021 Definitions trades for clearing, the cleared exposure is

---

[3] Detailed descriptions of these improvements can be found here: https://www.isda.org/2021/06/24/key-changes-in-the-2021-isda-interest-rate-derivatives-definitions/

[4] https://isda.mylibary.org

[5] The Calculation Agent must now use commercially reasonable procedures to produce a commercially reasonable result (taken from the 2002 ISDA Master Agreement Close Out provisions) instead of 'commercially reasonable endeavours' under the 2006 Definitions.

[6] LCH, CME, EUREX, HKEX, KRX and ASX adopted the 2021 Definitions with effect from October 4th, 2021. JSCC has announced it will adopt the 2021 Definitions from December 6th, 2021.

ISDA

subject to rule books which reflect the 2021 Definitions upon the occurrence of life-cycle events[7]. Importantly, some CCPs are running their benchmark reform related conversion processes (such as the EONIA to €STR conversion that occurred in October and LIBOR to RFR conversions that are schedule to occur towards the end of the year) so that the resultant RFR trade will be messaged using 2021 Definitions labelling.

In the non-cleared market, more of a phased adoption approach is being taken. The lack of a big-bang adoption date may mean that you have not yet encountered the kind of intense outreach seen previously from dealers, particularly where a regulatory mandate has been involved. I would strongly encourage you, however, to engage with the outreach efforts you do encounter and also to pro-actively reach out to any other dealers you have relationships with, in order to start the process of transitioning to the 2021 Definitions. Although it may be tempting to put off that conversation until another time, the combination of LIBOR transition processes at the end of the year and the prospect of the 2006 Definitions becoming stale, mean that starting the process now should result in significant efficiencies later.

The creation of the new definitional booklet was significantly driven by a desire to provide buyside and corporate end users with a better outcome in the derivatives market. We were very grateful to our buyside members and the buyside associations who dedicated significant time and resources into ensuring that was achieved. We believe it is now in market participants' interests to ensure they take steps today that will allow them to enjoy the benefits of all that endeavour.

Yours sincerely

Scott O'Malia
Chief Executive

[7] Note that, in recognition that not all parties may be ready operationally to consume 2021 Definitions messaging, the CCPs will continue, for a finite transitional period, to message back using the format of the definitional booklet for the submitted trade. Lifecycle events under those trades, however, will continue to be processed under rulebooks which reflect the 2021 Definitions.