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**ISDA® BEST PRACTICE PRINCIPLES
ON SWAPS STRAIGHT-THROUGH PROCESSING
June 13, 2016**

Important Note and Disclaimer: This document does not constitute legal, accounting or financial advice. As with all market information and guidance that ISDA disseminates, parties are free to choose alternative means of addressing the specific facts of their situation. Industry participants are responsible for considering their own documentation and the specific terms of their trades and should satisfy themselves that the principles herein are appropriate and are properly applied in the context of their trades to reflect the commercial intention of the parties.

New York, June 13, 2016 - The International Swaps and Derivatives Association, Inc. (“ISDA”) is issuing these best practice principles in the interest of facilitating compliance with the U.S. Commodity Futures Trading Commission (“CFTC”) staff guidance coming into force on August 1, 2016 whereby SEF-executed trades should be sent to clearing within 10 minutes.

CFTC – Staff Guidance on Swaps Straight-Through Processing, Sept 26, 2013

- *Allows the use of affirmation hubs, but requires trades to be routed “as quickly after execution as would be technologically practicable if fully automated systems were used” (“AQATP”)*
- *Use of a third party affirmation hub does not excuse compliance with this timing standard.*

On December 21, 2015, the CFTC responded to a letter from ISDA proposing a plan for reducing Straight-Through Processing (“STP”) timeframes for certain interest rate swap contracts executed on SEFs or DCMs with the intention of being cleared ([link](#)). ISDA’s proposed plan was a response to concerns raised by CFTC staff that STP rates were not compliant with previously issued staff guidance regarding routing of trades to clearing via third-party hubs.

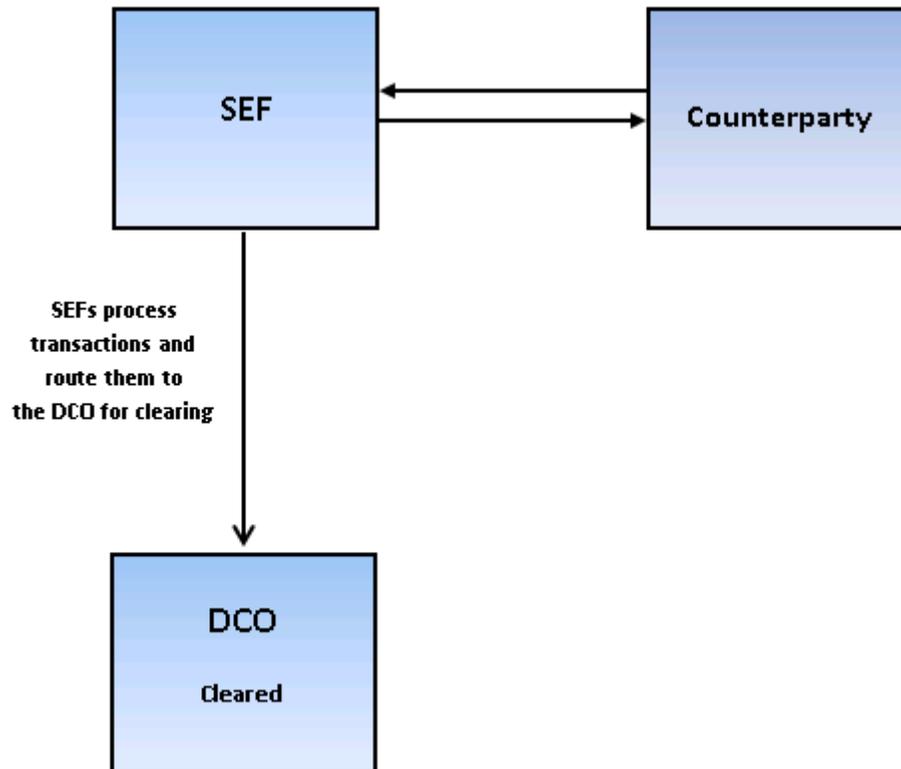
The CFTC response agreed with ISDA’s proposal that the AQATP standard may be met if trades are routed to and received by the relevant DCO no more than 10 minutes after the execution of the trade and granted until August 1, 2016 for compliance with the requirement. Additionally, staff acknowledged that if an error is detected within this period, it may take longer than 10 minutes to complete correction of the error. While the initial proposal related to certain interest rate contracts, it is noted that the CFTC response does not restrict this requirement therefore the industry should consider this guidance as applicable to all transactions executed on a SEF irrespective of asset class.

The execution-to-clearing workflows set out below are intended to illustrate some of the options for clearing SEF-executed trades. These workflows in no way preclude market participants from adopting alternative solutions.

(i) Direct send to clearing

SEF-executed trades are submitted through a direct connection to a DCO.

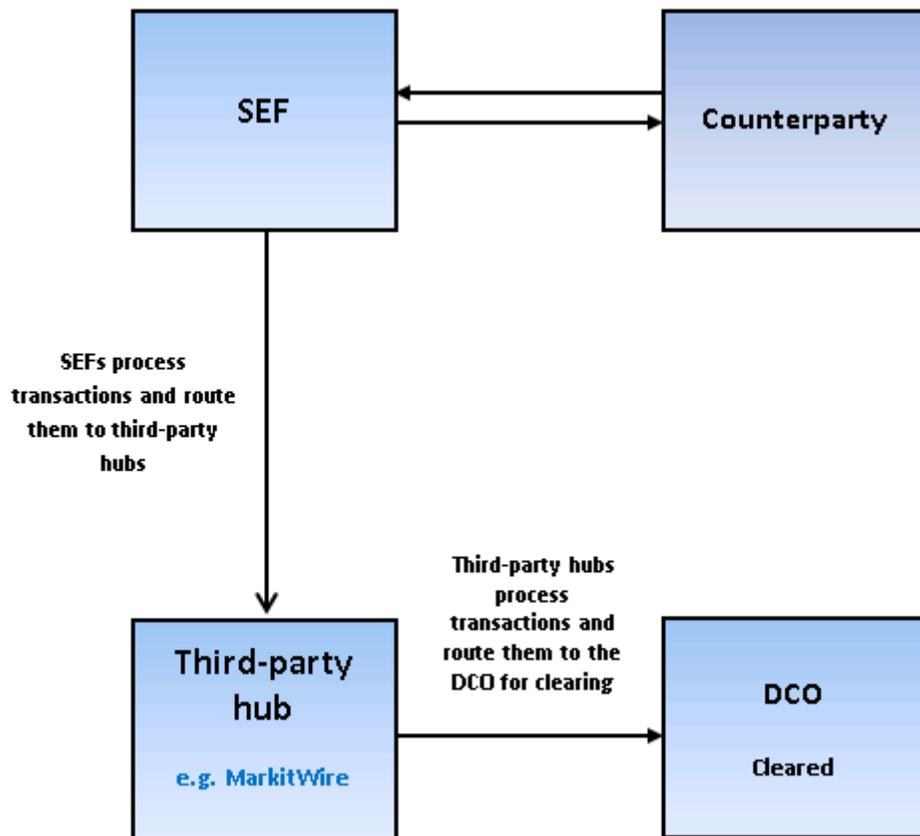
Direct send to clearing



(ii) Third-party hub – Auto-processing

SEF-executed trades are submitted to a third party service provider, a third-party hub (also known as “middleware” or “trade processing platforms”), which automatically processes swap trades routing them to the DCO without the opportunity for counterparty affirmation of the terms of the trade.

Third-party hub – Auto-processing

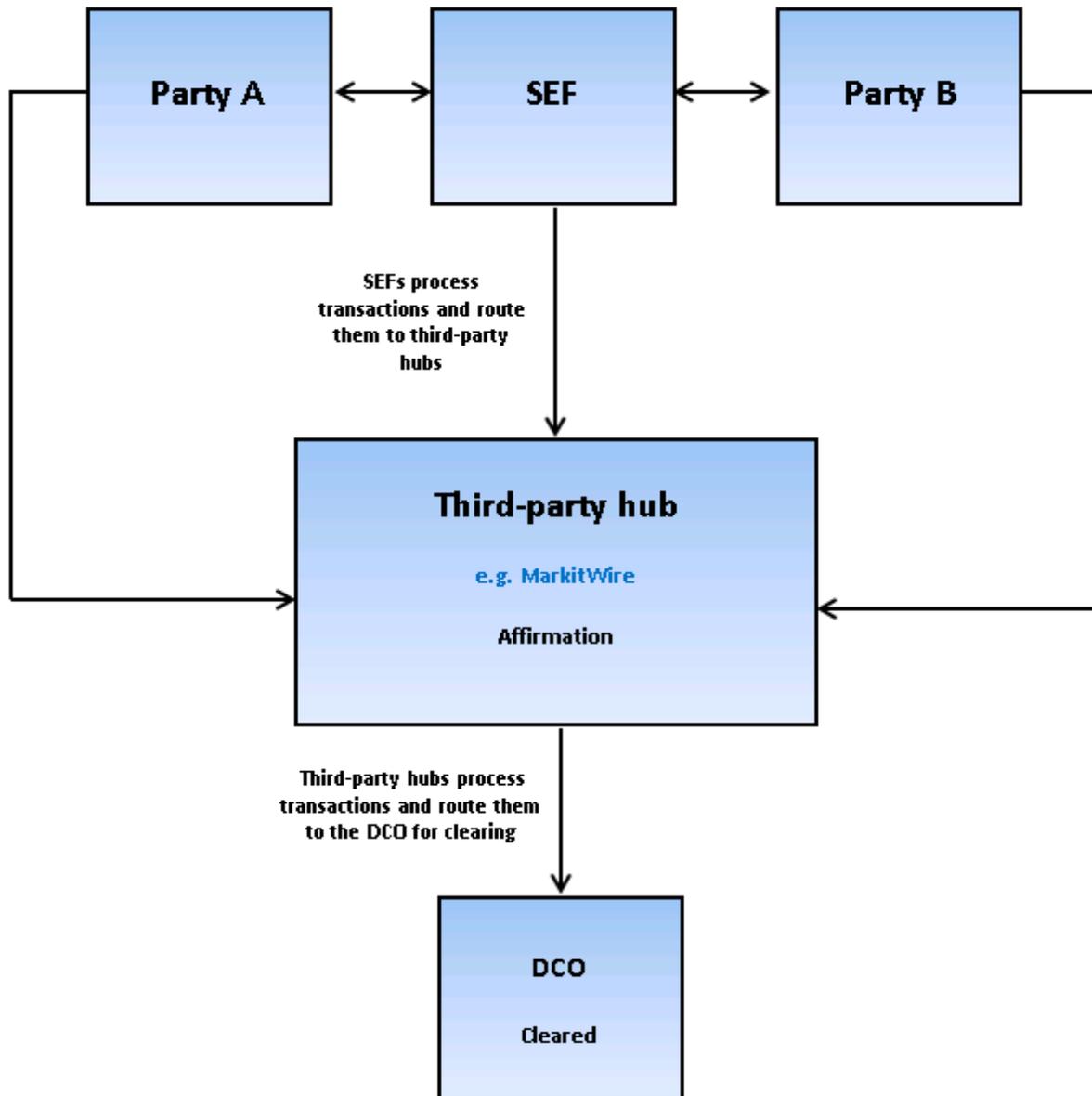


(iii) Third-party hub - Affirmation

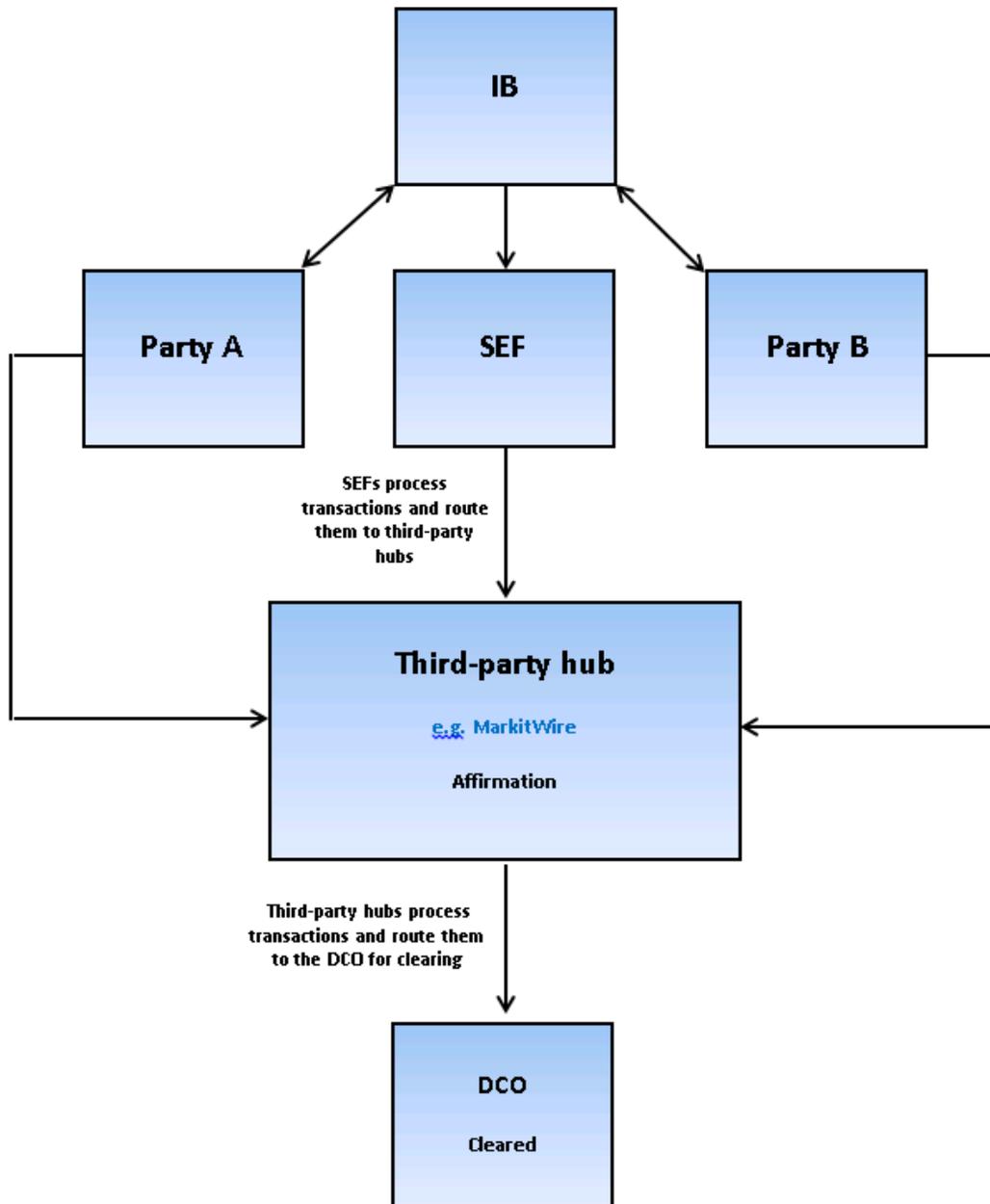
SEF-executed trades are submitted to a third-party hub that, on behalf of the SEFs, provides both parties to the trade with an opportunity to review the terms of the trade. Once the trade has been affirmed and released for clearing by both parties the trade is routed to the DCO. If errors in the digitization process are identified, either party to the trade may request a revision from the SEF; SEFs are able to correct or terminate trades.

(iii) Third-party hub - Affirmation

(a) On-SEF execution



(b) Prearranged execution via IB



ISDA encourages market participants, SEFs, and third-party hubs to work together to ensure the processing of SEF-executed trades to a DCO is “as soon as technologically practicable.”

The following principles have been derived from a series of meetings of the ISDA STP Working Group and the ISDA Organized Trade Execution Regulatory Implementation Group, which consist of market participants and SEFs. The principles are intended to facilitate compliance with the CFTC staff's STP guidance that comes into force on August 1, 2016. The working groups stress that these principles do not reach many of the remaining issues that may be the subject of further group and individual discussions. The mere absence of treatment of an issue in these principles should not prejudice such discussions. The working groups will remain available, to the extent participants wish, as a forum for addressing related issues as they develop.

General principles for market participants

Market participants are encouraged to comply with relevant processing requirements, including:

- Reviewing and enhancing, where appropriate, existing internal workflows to facilitate post-trade processing of trades, including removing internal rules that prevent or delay the post-trade processing of trades to clearing
- Prioritizing affirmation where direct action on a third-party platform is required
- Adopting auto-processing functionality where available and appropriate

General principles for SEFs.

SEFs are encouraged to comply with relevant processing requirements, including:

- Ensuring that voice and voice/electronic hybrid swap trades executed¹ on a SEF are recorded electronically immediately
- Communicating the workflows/functionality available to market participants and the context in which they can be applied
- Ensuring, in co-operation with third-party hubs, that there are procedures to address errors encountered during affirmation
- Specifying how market participants will be notified if a trade fails to be routed to and received by the relevant DCO within 10 minutes of execution
 - Any notification message should clearly identify whether one party or both parties failed to satisfy their obligations as trades that exceed this timeframe should be considered on an individual performance basis
 - Rules regarding compliance with the STP guidance should be clearly communicated
- Ensuring, in co-operation with third-party hubs, that the following data points are available to market participants:
 - Execution timestamp
 - Third-party hub trade receipt timestamp
 - Market participant affirmation timestamp
 - Market participant released to clearing timestamp
 - Cleared timestamp

¹ SEFs shall communicate the recorded execution timestamp

General principles for third-party hubs

Third-party hubs are encouraged to comply with relevant processing requirements, including:

- Ensuring that all workflows can be accommodated
- Working with market participants to apply auto send to clearing/remove internal rules that prevent or delay the post-trade processing of trades to clearing

The CFTC response notes that it is intended that the guidance provides an opportunity to continue efforts to reduce error rates and facilitate prompt and efficient transaction processing stating that it is the CFTC staff's expectation that the industry will continue to reduce the timeframes for transaction processing. ISDA therefore encourages participants to focus on solutions that route trades to the DCO "as soon as technologically practicable".