



Best Practices for Single-name Credit Default Swap Confirmations Regarding Reference Obligation or Standard Reference Obligation – September 25, 2024

The table below sets out best practices for a Confirmation of a single-name Credit Default Swap ("CDS") transaction that incorporates the 2014 ISDA Credit Derivatives Definitions (the "2014 Definitions"). It applies to (a) Confirmations executed electronically in OSTTRA's TradeServ platform ("TradeServ"), and (b) to Confirmations executed on paper based on the 2014 Definitions form of Confirmation for use with the ISDA Credit Derivatives Physical Settlement Matrix or Exhibit A to the 2014 Definitions (a "Paper Confirmation").

These Best Practices do not constitute legal, accounting or financial advice. ISDA assumes no responsibility for any use to which these Best Practices may be put. Each party following a recommendation in these Best Practices must satisfy itself that the recommendation is appropriate for the transaction and has been properly applied in the context of the transaction to reflect the commercial intention of the participants.

The trade scenarios listed in the table are intended to be as comprehensive as possible, to provide guidance on a range of methods of documenting the Reference Obligation or Standard Reference Obligation ("SRO") in a Confirmation. The purpose of the best practices is limited to guidance on how each scenario should be documented. Inclusion of a scenario in the table is not intended to be an indication that it should be considered best practice for the choice of terms for a CDS transaction or that all scenarios are equally commonly-used, in fact some of the scenarios may not be used frequently in practice.

The SRO concept was introduced in the 2014 Definitions. Where a transaction does not apply the SRO, CDS transactions referencing the same Reference Entity and seniority level might specify different obligations as the Reference Obligation. The lack of Reference Obligation standardization means that CDS transactions on the same terms apart from the Reference Obligation may not perfectly offset each other. This is exacerbated by (i) the market-standard Reference Obligations changing from time to time for reasons other than maturity or redemption, (ii) Substitute Reference Obligations being chosen bilaterally for some Credit Derivative Transactions and not others and (iii) some CDS transactions inadvertently specifying an obligation that would not qualify as a "Deliverable Obligation" for purposes of that CDS transaction if it had not been specified as the Reference Obligation. The lack of Reference Obligation standardization is also a specific concern in the clearing context, as CCPs may change the Reference Obligation for a CDS transaction at the time of submission for clearing or after it has been submitted. This leads to potential basis risk between cleared and uncleared trades and between trades that are cleared in different CCPs. The SRO concept addresses these issues where an SRO is published, by applying a standardized Reference Obligation across all CDS transactions that apply the SRO, and

selecting and replacing SROs according to a rigorous rules-based process. For a 2014 Definitions CDS transaction, parties should therefore consider carefully before using a Non-Standard Reference Obligation instead of an SRO.

The table sets out the best practice applicable to various different trade scenarios defined according to:

- (a) whether the transaction is a senior or subordinated (including a Senior Non-Preferred Level) CDS transaction;
- (b) if the transaction is a senior CDS transaction, whether the transaction is intended to have a Reference Obligation (it is assumed the parties always intend to have a Reference Obligation for a subordinated CDS transaction);
- (c) whether the Reference Obligation is intended to be the SRO published for the Reference Entity and Seniority Level from time to time (if any) or a Non-Standard Reference Obligation;
- (d) if the Reference Obligation is intended to be the SRO, whether the first SRO for the Reference Entity and Seniority Level has been published before the Trade Date (regardless of whether there is a currently-outstanding SRO on the Trade Date)¹; and
- (e) if the transaction is a senior CDS transaction and the Reference Obligation is intended to be the SRO but the first SRO for the Reference Entity and Seniority Level has not been published before the Trade Date, whether the parties agree an alternative Reference Obligation to apply until such publication (it is assumed the parties always agree an alternative Reference Obligation for a subordinated CDS transaction).

¹ The table does not distinguish between transactions according to whether, on the Trade Date, an SRO is currently outstanding or has been redeemed but not yet replaced under the SRO rules. Once the first SRO for the relevant Reference Entity and Seniority Level has been published, parties would follow the same Confirmation procedure regardless of whether the current SRO is outstanding. The 2014 Definitions specify how a redeemed SRO will apply to the transaction, and so it is not necessary to specify a special treatment for this scenario in the Confirmation.

Best Practices Table

Relevant Transaction Terms							Best practice for applicable Confirmation method	
Scenario	Applicable Definitions	Capital structure level	Is transaction intended to have a Reference Obligation?	Reference Obligation to be SRO or Non-Standard Reference Obligation	First SRO published before Trade Date?	Alternative Reference Obligation agreed to apply until first SRO published?	TradeServ	Paper Confirmation
(a)	2014 Definitions	Senior	Yes	SRO	Yes		Enter XSSNRREFOBLO in Reference Obligation field (or use the relevant SRO RED9) ²	Specify SRO as "Applicable" and Seniority Level as "Senior Level". Do not specify a Reference Obligation.
(b)	2014 Definitions	Senior	Yes	SRO	No	Yes	Enter Reference Obligation ISIN in Reference Obligation field (or use equivalent RED9)	Specify SRO as "Applicable" and specify a Reference Obligation. Do not include the "Seniority Level" field or otherwise specify a Seniority Level.
(c)	2014 Definitions	Senior	Yes, but only if an SRO is published	SRO	No	No	Enter XSNOREFOBL00 in Reference Obligation field (or use equivalent RED9, if available) ³	Specify SRO as "Applicable" and Seniority Level as "Senior Level". Do not specify a Reference Obligation.
(d)	2014 Definitions	Senior	Yes	Non-Standard Reference Obligation			Enter XSNOSROSRL0 in the Reference Obligation field. Enter Reference Obligation ISIN in Additional Terms field using the syntax "ISIN XX1234567890".	Specify SRO as "Not Applicable" and specify a Reference Obligation. Do not include the "Seniority Level" field or otherwise specify a Seniority Level.
(e) ⁴	2014 Definitions	Senior	No				Enter XSNOSROSRL0 in the Reference Obligation field. Enter the following in Additional Terms field: "ISIN XSNOREFOBL00".	Specify SRO as "Not Applicable". Do not specify a Reference Obligation and do not include the "Seniority Level" field or otherwise specify a Seniority Level.
(f)	2014 Definitions	Subordinated	Yes	SRO	Yes		Enter XSSUBREFOBLO in Reference Obligation field (or use the relevant SRO RED9) ²	Specify SRO as "Applicable" and Seniority Level as "Subordinated Level". Do not specify a Reference Obligation.
(g)	2014 Definitions	Subordinated	Yes	SRO	No	Yes	Enter Reference Obligation ISIN in Reference Obligation field (or use equivalent RED9)	Specify SRO as "Applicable" and specify a Reference Obligation. Do not include the "Seniority Level" field or otherwise specify a Seniority Level.
(h)	2014 Definitions	Subordinated	Yes	Non-Standard Reference Obligation			Enter XSNOSROSUBL0 in the Reference Obligation field. Enter Reference Obligation ISIN in Additional Terms field using the syntax "ISIN XX1234567890".	Specify SRO as "Not Applicable" and specify a Reference Obligation. Do not include the "Seniority Level" field or otherwise specify a Seniority Level.
(i) ⁵	2014 Definitions	Senior Non-Preferred	Yes	SRO	Yes		Enter XSLACREFOBLO in Reference Obligation field (or use the relevant SRO RED9) ²	Specify SRO as "Applicable". Do not specify a Reference Obligation and do not include the "Seniority Level" field or otherwise specify a Seniority Level.
(j) ⁵	2014 Definitions	Senior Non-Preferred	Yes	SRO	No	Yes	Enter Reference Obligation ISIN in Reference Obligation field (or use equivalent RED9)	Specify SRO as "Applicable" and specify a Reference Obligation. Do not include the "Seniority Level" field or otherwise specify a Seniority Level.

² Note that specifying the ISIN of the currently-published SRO is not considered best practice. Use of the generic SRO identifier avoids the need for the parties to match on a specific ISIN.

³ Please see footnote 4 for the recommended best practice for a transaction where the Reference Entity is a monoline insurer (a "Monoline Transaction").

⁴ For Monoline Transactions, market feedback indicates that the parties typically will not want SRO or any Reference Obligation to apply, and therefore that no SRO is expected to be published for any monoline insurer. For a Monoline Transaction using the 2014 Definitions, it is recommended that parties follow best practice in scenario (c) for TradeServ, and best practice in scenario (e) for a Paper Confirmation. In the case of TradeServ, this recommended practice is based on the MarktSERV Operating Procedures applicable to TradeServ, which provide that where XSNOREFOBL00 is specified as the Reference Obligation for a Monoline Transaction, SRO will be deemed specified as Not Applicable. This also reflects market practice for confirming Monoline Transactions in TradeServ prior to the implementation of the 2014 Definitions.

⁵ It is assumed that scenarios (i) and (j) will only apply where the Transaction Type is STANDARD EUROPEAN SENIOR NON PREFERRED FINANCIAL CORPORATE or EUROPEAN SENIOR NON PREFERRED FINANCIAL CORPORATE and therefore the Additional Provisions for Senior Non-Preferred Reference Obligations (published on December 8, 2017) are Applicable. For such Transaction Types SRO must be specified as Applicable and a Seniority Level must not be included.

