

# ISDA 2021 Definitions

June 2021

# ISDA 2021 Definitions: Overview

Subject	Description
Overview	<p>Of the changes proposed by ISDA as part of the publication of the new Interest Rate 2021 Definitions booklet, we have identified that the most impactful for LCH and its members and clients is the introduction of new Floating Rate Option (FRO) labels for trades that reference the ISDA 2021 Definitions.</p> <p>This proposal means that trades booked under the ISDA 2021 Definitions will be booked against a different FRO label to that which currently exists under the ISDA 2006 Definitions.</p> <p>LCH's approach for supporting the new ISDA 2021 Definitions and FRO labels aims to minimise the impact to the existing cleared population of trades under the ISDA 2006 Definitions.</p>
LCH Proposal	<p>Outlined in the following slide is the logic that we will be implementing for SwapClear processes, dependent on whether a trade has been cleared under the ISDA 2006 Definitions (with the legacy FRO label) or the ISDA 2021 Definitions (under the newly defined FRO label).</p> <p>For the purposes of compression and netting the FRO label of new trades will remain the same as those in the netting group, apart from when the netting group consists of a mix of ISDA 2006 and ISDA 2021 trades. In this scenario the remnant could be booked under either of the Definitions. This ensures fungibility between trades referencing different Definitions without the requirement to update the existing cleared population of trades.</p> <p><b>Please note: for the purposes of all IBOR conversion workflows (IBOR basis swap splitting, EONIA conversion and LIBOR conversion) all new trades will be booked referencing the ISDA 2021 Definitions and the associated new FRO labels.</b></p>
ISDA 2021 FRO Labels	<p>The 'List of FROS for inclusion in the 2021 Definitions' have been circulated by ISDA to members of their various working groups.</p>
Key Dates	<p>Target ISDA Adoption Date: 4<sup>th</sup> October 2021</p> <p><a href="#">Introduction to the 2021 ISDA Interest Rate Derivatives Definitions – International Swaps and Derivatives Association</a></p>

# ISDA 2021 Definitions: Process Logic

Process	Input	Output
<i>Clearing of new trade</i>	ISDA 2006 [Legacy FRO]	ISDA 2006 [Legacy FRO]
	ISDA 2021 [New FRO]	ISDA 2021 [New FRO]
<i>Solo Compression</i>	ISDA 2006 [Legacy FRO]	ISDA 2006 [Legacy FRO]
	Mix of ISDA 2006 [Legacy FRO] + ISDA 2021 [New FRO]	Matches most recent trade in netting group (i.e. could be ISDA 2006 or 2021)
	ISDA 2021 [New FRO]	ISDA 2021 [New FRO]
<i>Multilateral Compression</i>	<ul style="list-style-type: none"> <li>Residual trades = the Definition that is sent by the Vendor</li> <li>Risk Replacement = ISDA 2021 if there is a least one ISDA 2021 trade in the initial vendor run group, ISDA 2006 if not</li> </ul>	
<i>Portfolio Transfers</i>	ISDA 2006 [Legacy FRO]	ISDA 2006 [Legacy FRO]
	ISDA 2021 [New FRO]	ISDA 2021 [New FRO]
<i>IBOR Conversion Workflows</i>	ISDA 2006 [Legacy FRO]	ISDA 2021 [New FRO]
	ISDA 2021 [New FRO]	ISDA 2021 [New FRO]

# ISDA 2021 Definitions: Process Logic Example

Using GBP LIBOR as an example to demonstrate the logic outlined on the previous slide:

- ISDA 2006 FRO Label: *GBP-LIBOR-BBA*; ISDA 2021 FRO Label: *GBP-LIBOR*

Process	Input	Output
<i>Clearing of new trade</i>	GBP-LIBOR-BBA	GBP-LIBOR-BBA
	GBP-LIBOR	GBP-LIBOR
<i>Solo Compression</i>	e.g. two trades in netting group: GBP-LIBOR-BBA + GBP-LIBOR-BBA	Netting remnant: GBP-LIBOR-BBA
	e.g. two trades in netting group: GBP-LIBOR-BBA [Dec 2020] + GBP-LIBOR [Jul 2021]	Netting remnant matches most recent trade: GBP-LIBOR
	e.g. two trades in netting group: GBP-LIBOR [Jul 2021] + GBP-LIBOR-BBA [Aug 2021]	Netting remnant matches most recent trade: GBP-LIBOR-BBA
	e.g. two trades in netting group: GBP-LIBOR + GBP-LIBOR	Netting remnant: GBP-LIBOR
<i>Multilateral Compression</i>	<ul style="list-style-type: none"> <li>Residual trades = the Definition that is sent by the Vendor</li> <li>Risk Replacement = ISDA 2021 if there is a least one ISDA 2021 trade in the initial vendor run group, ISDA 2006 if not</li> </ul>	
<i>Portfolio Transfers</i>	GBP-LIBOR-BBA	GBP-LIBOR-BBA
	GBP-LIBOR	GBP-LIBOR
<i>Reporting</i>	GBP-LIBOR-BBA	LIBOR-BBA
	GBP-LIBOR	LIBOR-BBA (same as it is currently)
<i>IBOR Conversion Workflows</i>	GBP-LIBOR-BBA	GBP-LIBOR
	GBP-LIBOR	GBP-LIBOR

# ISDA 2021 Definitions: LCH's Approach

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- Some businesses and venues do not specify the contractual definition year and therefore it is an implicit assumption that we can derive the contractual definition year from the cleared FRO label. For instances where there is no change to the FRO label from one definition to another, the ISDA 2021 Definitions will be applied to the trade.
- Although trades cleared under the ISDA 2006 Definitions will continue to reference the original contractual definition year, SwapClear will treat them as fungible and economically similar to trades under the ISDA 2021 Definitions
- ISDA have advised that the ISDA 2006 Definitions will cease to be updated once the ISDA 2021 Definitions are live. LCH's Rulebook will be updated to reflect the usage of ISDA 2021 Definitions for all trades.
- For the avoidance of doubt, SwapClear will continue to accept trades that reference the ISDA 2006 and ISDA 2000 Definitions but will apply the 2021 Definitions to all cleared contracts.
- With the exception of *USD-Federal Funds* (the ISDA 2021 new FRO label for USD-Federal Funds-H.15, which is eligible as part of the USD LIBOR/Fed Funds Basis Swaps), there are no immediate plans to support un-compounded RFRs.
- Our plan will not require an upgrade to the FpML schema to support, as the new ISDA 2021 FRO labels are expected to be available under the existing FpML 5-11 schema version.
- Conversion: please note that all new trades booked as part of IBOR conversion workflows (basis swap splitting, EONIA conversion and LIBOR conversion) will be booked as ISDA 2021 trades. This will be the case for both the dress rehearsals and production events. More information about conversion can be found on the Member Secure Area here: [LCH.Clearent Group - Secure Area - Secure](#)

# ISDA 2021 Definitions: LCH's Approach for Reporting

- For the purposes of reporting LCH does not propose to change the index values in the reports which currently feature this information. Currently these reports do not distinguish between ISDA Definition years 2006 and 2000, so we propose not to change anything for ISDA 2021.

## REP00003 Example

Currency	Index	TenorUnit	TenorPeriod	FixingDate	EffectiveDate	IndexRate	RegulatoryBody
EUR	EURIBOR		6 M	27/01/2021	29/01/2021	-0.00526	Reuters
GBP	SONIA		1 D	27/01/2021	26/01/2021	0.000489	OIS-COMPOUND
USD	SOFR		1 D	27/01/2021	26/01/2021	0.0003	OIS-COMPOUND

## REP00001 Example

Party_B_SdTradeId	PreviousSdTradeId	TerminationDate	ProductType	ReceiveLeg	PayLeg	EID
		15/12/2025	IRS	HIBOR-HKAB-3M	FIX	
		02/06/2022	IRS	FIX	EURIBOR-Reuters-6M	
		15/03/2028	IRS	LIBOR-BBA-3M	FIX	

## REP00084 Example

Party_A_IndexName	Party_A_FirstTenor
BBR-BBSW	3M
LIBOR-BBA	6M

Party_B_IndexName	Party_B_FirstTenor
LIBOR-BBA	6M
BBR-BBSW	6M

# ISDA 2021 Definitions: LCH's Approach for Reporting

## REP00093 Example

Leg1_IndexName	Leg1_InitialRate	Leg1_Tenor
LIBOR-BBA	0.0021288	3M

Leg2_IndexName	Leg2_InitialRate	Leg2_Tenor
FEDFUND-H.15		1D
EURIBOR-Reuters		6M

## REP00094 Example

Leg1_IndexName	Leg1_InitialRate	Leg1_Tenor
LIBOR-BBA	0.0023287	3M

Leg2_IndexName	Leg2_InitialRate	Leg2_Tenor
EURIBOR-Reuters		3M

## REP00106 Example

CashFlowType	PeriodStartDate	Party_A_Rate	Spread	Party_A_IndexName	Party_A_FirstTenor	Party_A_SecondTenor
P	21/09/2020			LIBOR-BBA	6M	
P	24/11/2020	0.001484				
P	24/11/2020			EURIBOR-Reuters	3M	

## REP00153z Example

Leg1_IndexName	Leg1_Tenor	Leg1_EffectiveDate	Leg1_PmtFrequency
LIBOR-BBA	3M	25/01/2021	3M
		25/01/2021	

Leg2_IndexName	Leg2_Tenor	Leg2_EffectiveDate	Leg2_PmtFrequency
		25/01/2021	
EURIBOR-Reuters	6M	25/01/2021	6M

# Conversion

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The first conversion exercise to occur under the ISDA 2021 Definitions will be the basis swap split exercise. A detailed explanation of this exercise and all other conversion workflows can be found on the LCH Secure Area.

Post Split Basis Swap	Value
<b>Trade Type</b>	Fixed vs Float (x2)
<b>Registration Date</b>	4 <sup>th</sup> October 2021
<b>Trade Date</b>	1 <sup>st</sup> October 2021 <sup>(*)</sup>
<b>Effective Date</b>	As per original basis swap
<b>Maturity Date</b>	As per original basis swap
<b>Floating Leg Payment Date(s)</b>	As per original basis swap leg

(\*) The basis swap splitting exercise will occur on Saturday 2<sup>nd</sup> October 2021, but for technical reasons the Trade date will be set to the previous good business day.



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