ISDA Safe, Efficient Markets

October 13, 2015

Frequently Asked Questions
Amending when Single Name CDS roll to new on-the-run contracts: December 20[1], 2015 Go-Live

ISDA continues to work with its members to finalize materials which will provide transparency for a new proposal to reduce the frequency with which Single Name CDS roll to new on-the-run contracts. This Frequently Asked Questions ("FAQ") document explains the proposal in regard to expected trading and operational conventions for certain credit derivative transactions as of December 20, 2015.

[1] The term go-live for this purpose means that December 20, 2015 will be the first time market participants apply the new convention (i.e. not rolling to new 'on-the-run' contract on this date).

General Questions

1. What is the proposal?

The Credit Steering Committee has been asked to consider a proposal which would recommend a new standard schedule by which Single Name CDS contracts move to new 'on-the-run' contracts, an amendment from a quarterly frequency to a semi-annual frequency, further aligning Single Name CDS with how Credit Indices roll[2].

2. What will change from the current convention?[3]

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, following the current convention for Credit Indices. For example, on September 20, 2015 firms switched 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 switch to contracts maturing June 20, 2021.

3. Are there other changes taking place to the Standard Single Name CDS contract?

No. Reducing the frequency of when the market considers a contract as the on-the-run is the only proposed change. All other features of the current standard Single Name CDS contract will remain unchanged:

- Coupon payments will still occur on a quarterly basis

- Credit Derivatives Physical Settlement Matrix (the "Matrix") terms will not be adjusted. This means standard Fixed Rates, Credit Events and other terms associated with respective Matrix transaction types will not be affected.

4. Will this proposal be effective for all regions and sectors?

Yes. Market participants, and infrastructure providers, who choose to switch to the new semi-annual roll convention will do so for Reference Entities across all global regions and market sectors (note: includes all Single Name CDS types - Corporate, Sovereign, Loan, Muni, Mortgage).

5. What are the expected benefits of the proposed change?

---

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

[3] 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.

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 will:

- improve the affordability of the product, by reducing capital costs
- increase netting fungibility
- increase clearing of eligible Single Name transactions, including increased buy-side participation
- be an improvement to the current market structure (e.g. further aligning Single Name CDS with Credit Indices)
- Continue to improve liquidity surrounding the new semi annual dates; while providing an increase in participation and improving transparency on those dates

6. What happens if a party does not want to adhere to the proposed roll calendar?

There is **not** a requirement for any participant to use the proposed roll convention. Market participants are free to continue using the current calendar if they so choose.

7. What is the expected implementation schedule?

The Credit Steering Committee has recommended the following initial implementation schedule (using the 5Y contract as an example):

- September 20, 2015 - Single Name CDS contracts ‘rolled’ to December 20, 2020 (on-the-run) as per the current convention, along with the index roll
- December 20, 2015 – Single Name CDS contracts **Do Not** ‘roll’ forward. December 20, 2020 maturity is still considered the on-the-run until March 20, 2016
- March 20, 2016 - Single Name CDS contracts will ‘roll’ to June 20, 2021 (on-the-run), along with the index roll
- June 20, 2016 – Single Name CDS contracts **Do Not** ‘roll’ forward. June 20, 2021 maturity is still considered the on-the-run until September 20, 2016.

8. How will this change affect legacy transactions?

ISDA has been advised by its members that it may be beneficial for the industry to consider putting forth a process by which legacy transactions are amended. The Credit Steering Committee has formed a temporary sub-group to review this in detail. At this time, it is not anticipated that legacy transactions will be updated simultaneously with the December 20, 2015 go-live of the new convention. This FAQ will be updated accordingly upon receiving further information from the Credit Steering Committee.

9. Where can I find out more information about this initiative?

ISDA has created a dedicated page on its website for this particular initiative. Firms may visit ISDA's website to find more information regarding this proposal and certain aspects of implementation.

10. Will there be a change with how tenors are quoted?

The assumption is that tenors will be quoted as they are today (1yr, 3yr, 5yr, etc) and the corresponding maturity dates of those tenors will follow the new semi-annual roll conventions. It is expected that short end tenors (less than 1yr) will continue to be quoted in both explicit maturity dates and tenors (3mo, 6mo, etc).

Market participants should still be able to obtain quotes as they do today on the quarterly maturities, however the expectation is for liquidity to centralize in the June and December maturity buckets as the roll frequency is reduced. Contracts with March and September maturity points will still be able to trade and clear (see question 17) though it is anticipated that these contracts will be considered off the run.

11. How will the short end of the curve be (tenors <1yr) treated, including the zero month tenor?

The below is an example of how the short end of the curve will be treated. In this example, the zero month contract fully matures within a six month period:

	From July 22 2015	Sep 22 2015	Dec 22 2015	Mar 22 2016	Jun 22 2016	Sep 22 2016	Dec 22 2016
	0M	Dec 20 2015	< Matured >	Jun 20 2016	< Matured>	Dec 20 2016	< Matured>
	3M	Mar 20 2016	Mar 20 2016	Sep 20 2016	Sep 20 2016	Mar 20 2017	Mar 20 2017
	6M	Jun 20 2016	Jun 20 2016	Dec 20 2016	Dec 20 2016	Jun 20 2017	Jun 20 2017
	9M	Sep 20 2016	Sep 20 2016	Mar 20 2017	Mar 20 2017	Sep 20 2017	Sep 20 2017
	1YR	Dec 20 2016	Dec 20 2016	Jun 20 2017	Jun 20 2017	Dec 20 2017	Dec 20 2017
	2YR	Dec 20 2017	Dec 20 2017	Jun 20 2018	Jun 20 2018	Dec 20 2018	Dec 20 2018
	3YR	Dec 20 2018	Dec 20 2018	Jun 20 2019	Jun 20 2019	Dec 20 2019	Dec 20 2019
	4YR	Dec 20 2019	Dec 20 2019	Jun 20 2020	Jun 20 2020	Dec 20 2020	Dec 20 2020
Proposal	5YR	Dec 20 2020	Dec 20 2020	Jun 20 2021	Jun 20 2021	Dec 20 2021	Dec 20 2021

12. Will there be a separate quoting convention attached to the new roll convention like 2014 curves (e.g. curves continue to exist in parallel against both 3M and 6M roll conventions)?

No. The assumption is that the quoting convention will be aligned with the new roll convention, and that industry participants would not be required to maintain multiple definitions of certain points. This is due to the fact that the change being proposed results only in a difference in labeling.

13. Will there be a need for firms to map tenors to dates?

Yes. Additionally, firms will need to consider treatment of historical data prior to the roll convention change. For example, how to treat the charting of historical 5Y CDS spreads, or how to calculate historical position valuation and risk values using CDS term structures prior to the roll convention change.

14. Will there need to be a change made to the ISDA standard model?

No. There will not be an anticipated change to the ISDA standard model since it is based upon dates not tenors. Firms however will need to properly convert tenors to dates when passing associated spreads and prices into the model.

15. Are interest rate inputs going to change, such as the ISDA standard yield curve?

No. The tenor convention in the Interest Rate market has always been different to the Credit Derivatives market, and as such, these proposed changes will have no effect on the interest rate curve (yield curve) used in the ISDA Standard Model.

16. In respect to basis, does the new roll convention require adjustments to Single Name vs. Index basis?

No. Single Names and Indices will now have alignment in respect to roll frequency, which means there will no longer be a need to align their maturities. Firms however will need to properly convert tenors to dates for matching purposes.

17. Does the change affect clearing eligibility for transactions maturing in March and September (no longer considered on-the-run contracts per the new convention)?

No. Clearinghouses will continue to clear Single Name CDS contracts referencing March, June, September and December maturity dates.

18. Does the change affect the clearinghouse margin requirements?

No. The expectation is the margin requirements will not change at this point in time. The clearinghouses will monitor the impact the changes have on contract liquidity and will manage accordingly.