

Invitation to Tender for Credit Derivatives Determinations Committees – Q&A

Q: What are the credit derivatives Determinations Committees (DCs)?

A: The role of the DCs is to make factual determinations on credit events, successor reference entities and other issues, in response to questions submitted to the DCs by eligible credit derivatives market participants. They make their determinations by gathering publicly available information on a particular event and comparing this against the conditions contained within the ISDA Credit Derivatives Definitions (the standard legal terms used in the credit derivatives market).

A DC currently exists in each of the following regions: Americas, Asia excluding Japan, Australia-New Zealand, EMEA and Japan. Each DC consists of 10 sell-side and five buy-side market participants, alongside three consultative firms and central counterparty (CCP) observer members. Sell-side members are selected based on credit default swap trading volumes. Buy-side members are selected via a random draw, but must meet certain minimum assets under management and trading volume requirements. DC member selection is conducted on an annual basis, as per a process set out in the DC rules.

A supermajority vote (80%, or 12 out of 15 DC member firms) is required for a credit event to be determined by the DC without resorting to external review.

Q: What role does ISDA currently play?

A: ISDA currently acts as DC secretary.

Q: What does the DC secretary do?

The DC secretary performs administrative duties, such as compiling lists of eligible dealers, non-dealers and CCPs, and running any random draws necessary to determine the composition of the DC membership. The secretary is also responsible for passing questions submitted by eligible market participants to the relevant DCs, coordinating the timing of DC meetings, organizing and compiling the votes of DC members, and publishing DC decisions. The DC secretary performs an administrative role only, and does not vote on whether a credit event has occurred.

Q: Why is ISDA issuing an invitation to tender for the DC secretary role?

A: ISDA is committed to ensuring the credit derivatives market is safe and efficient. In 2009, ISDA helped establish the DCs as part of a series of measures to standardize credit derivatives contracts, help transition the market to central clearing, and bring transparency and certainty. Previously, there was no single, consistent mechanism to determine whether a credit event had occurred, which led to discrepancies and disputes between counterparties.

While ISDA has played an important role in administering the DC process, fulfilling the role of DC secretary is not something that is core to ISDA's mission statement. As a result of an ongoing process of review to ensure the DC process remains robust, ISDA believes the

appointment of an independent, specialist organization to act as DC secretary is a natural next step in the evolution of the process, and will ensure it continues to align with rapidly evolving governance standards.

Q: What will ISDA's future role in the credit derivatives market be?

A: ISDA will continue to maintain and publish the standardized documentation used as a basis for credit derivatives transactions, such as the 2003 and 2014 Credit Derivatives Definitions. ISDA will also continue to operate credit derivatives forums to discuss changes to credit derivatives documentation and practices.

Q: Will the change in DC secretary require modifications to credit derivatives documentation?

A: The change in secretary will require certain modifications to the DC rules to remove specific references to ISDA. ISDA will work with the new secretary during a transition period to make those changes and ensure a smooth handover. To support the continuity of the DCs process, the ISDA brand name and any required intellectual property will be licensed to the tenderer in the near term. A transition to a new name will take place within an agreed timeline. This change may require non-substantive modifications to credit derivatives documentation, and ISDA will support this transition with market protocols, to the extent practicable.

Q: What is the scope of the tender?

A: The tenderer will assume the DC secretarial and administrative duties currently performed by ISDA. As part of that, the secretary will build and maintain a new DC website, maintain and operate all infrastructure required to administer the DC process, and work with the DCs to ensure the process is robust, transparent and meets evolving regulatory and governance standards. The appointment as DC secretary will be for an initial period agreed with the successful tenderer, with subsequent annual renewals.

Q: What is the tender timeline?

A: The tender is expected to run over the course of the coming months, after which the successful bidder will be announced. Potential tenderers are to email their interest to ISDA within 10 business days of notice of the tender, upon which further details will be provided.

Q: On what criteria will each bid be judged?

A: The tender document outlines a number of criteria that tenderers must meet. In particular, each tenderer must demonstrate it has a sustainable business plan to ensure the DC process remains viable over the long term. Other factors include systems and infrastructure, governance and oversight of conduct and operations, and managerial capacity.