

ISDA[®]

Safe,
Efficient
Markets

ISDA 11 Equity Definitions

July 2014

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Features of the 11 Definitions

- **Standardization**
 - Standardized provisions
- **Real-time confirmations**
 - Faster Negotiations
 - No More Drafting -> Check-the-box elections
- **Supports future developments**
 - Industry-wide determinations

11 Definitions

New Contract Language

- Standardized Calculation Agent Dispute Mechanism
- Wide variety of standard Additional Disruption Events (eg Market-wide Hedging Disruption)
- Definition of “Avoidance”
- Consistent Determinations by the Calculation Agent

2002 Definitions + MCAs = Non-standard Contracts

- **MCAs:** Shortly after publication, parties requested significant amendments to ISDA-published MCAs. **The 2002 Definitions MCAs no longer sit on a standardized platform.**
 - Multiple versions of the same term (e.g., Change in Law), developed over time.
 - Many non-standard versions of the same provision must be manually reviewed case-by-case to understand the terms and differences amongst forms.

Exercise Period:	As specified in Section 3.1(a) of the Equity Definitions, excluding any day (other than the Expiration Date) on which american-style option contracts that trade on the relevant Share or Index on the Related Exchange cannot be exercised under the rules of the Related Exchange. If Exchange Look-alike applies, the text "9:00 a.m." referred to in Sections 3.1(a)(i) and 3.1(a)(iii) of the Equity Definitions is replaced by the words "the first time at which the Designated Contract may be exercised".
Exercise of European Options:	If notice of exercise of a European Option is given prior to the Exercise Period commencing, that notice is deemed given when the Exercise Period commences.
Latest Exercise Time:	If Exchange Look-alike applies and american-style exercise Designated Contracts exist, the last time at which those Designated Contracts may be exercised on the Related Exchange. In all other circumstances for Share Transactions: (i) if Physical Settlement applies, thirty minutes after the Scheduled Closing Time of the Exchange; and (ii) if Cash Settlement applies, thirty minutes before the Scheduled Closing Time of the Exchange.
Expiration Time:	If Exchange Look-alike applies and Designated Contracts exist, the last time at which the Designated Contracts may be exercised on the Related Exchange. In all other circumstances for Share Transactions, thirty minutes after the Scheduled Closing Time of the Exchange.
Amendment to Valuation Time:	If an Index Transaction has more than one Exchange, then, unless the Exchange is specified in the Transaction Supplement as "Multiple Exchange" and/or the Multiple Exchange Index Annex otherwise applies to the relevant Transaction, the Valuation Time (a) for the purposes of determining whether an Early Closure has occurred in respect of (i) any security in the Index is the Scheduled Closing Time on the Exchange in respect of such security, and (ii) options contracts or future contracts on the Index, is the close of trading on the Related Exchange; and (b) for all other purposes, is the time at which the official closing level of the Index is calculated and published by the Index Sponsor. If a Strike Date is specified in a Transaction Supplement for a Transaction in respect of which the Multiple Exchange Index Annex does not apply, then Section 6.1 of the Equity Definitions shall be amended with respect to such Transaction by including the words ", Strike

GTC:ISO-3

11 Definitions – Standard Contracts

- **GTCs:** Each term in the contract plainly states its definition. Because the equity matrix is incorporated only by reference, one standard template applies, with elections. **In this regard, it is a truly standardized contract.**
- Each contract conforms to a centralized, standard, template.
- Once reviewed, market participants can trade the **exact same contract every time**, without the need for further review.

+Extraordinary Events

Section 1: This section sets forth one or more events, each of which shall be an Extraordinary Event, subject to the additional terms set forth below. The EE Consequence specified at the end of this section shall apply for each such Extraordinary Event.

Extraordinary Event:

+Index Cancellation:

“Index Cancellation” means that

- (i) the Index Sponsor permanently cancels the Index on or prior to the final Equity Valuation Date; and
- (ii) no Successor Index exists; and
- (iii) either:
 - (a) derivatives contracts relating to the Underlier are not traded with sufficient liquidity (as determined by the Calculation Agent) on either the Primary Options Exchange or the Primary Futures Exchange; or
 - (b) none of the Primary Options Exchange, the Primary Futures Exchange or their respective clearing houses continue to publish a closing level for the Underlier for each scheduled Observation Date.

In relation to this Extraordinary Event, the following additional terms apply:

EE Trigger Feature:

Automatically Triggered

2002 Defs v. 11 Defs – What’s the difference? ISDA[®]

Drafting Convention

- **11-style: User-friendly definitions**

For any given Equity Matrix, each definition is self-contained and presented in its entirety:

“Change in Law” **shall occur if**, as a result of a Change in Law Event occurring on or after the Trade Date, an Illegality Event Determining Party determines that it has become or, within the next 30 calendar days (but on or prior to the Final EE Cut-off Date), it will become illegal for a Hedging Party to hold, acquire, establish, re-establish, maintain, unwind or dispose of one or more Hedge Positions.

- **2002-style: Every term has to be amended in the context of the MCA template, even if the 2002 Defs are no longer relevant:**

From 07 Americas IVS MCA:

Change in Law: **Applicable; provided that** (a) Section 12.9(a)(ii)(X) of the Equity Definitions is hereby amended by replacing the word “Shares” with the words “Hedge Positions” and (b) Section 12.9(a)(ii)(Y) of the Equity Definitions is hereby deleted.

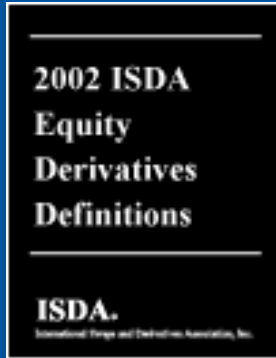
Reader has to look up base definition, then interpret how it’s modified.

2002 Definitions & 11 Definitions Comparison of the Complete Contract

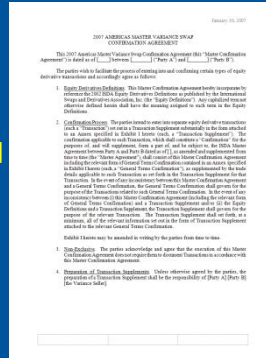
2002 Definitions:

1. 2002 Definitions. *Incorporated by ref.*
2. MCA. *Signed.*
3. GTC. *Signed.*
4. Transaction Suppl. *Signed.*

2002 Defs



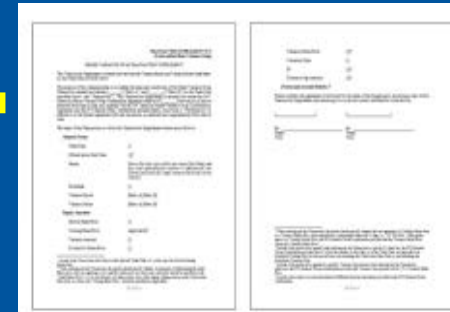
MCA



GTC



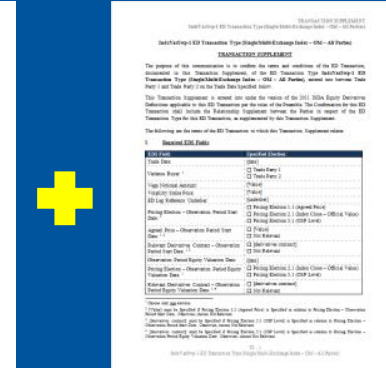
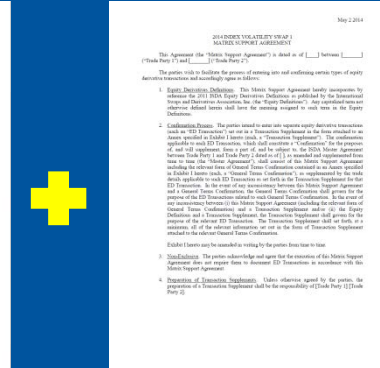
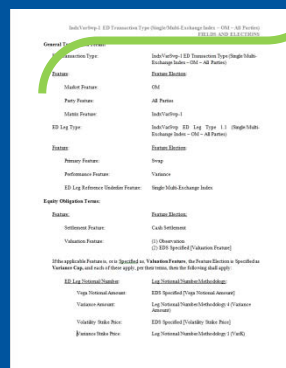
Transaction Supplement



11 Definitions:

1. Equity Matrix. *Incorporated by ref.*
 1. GTC
 2. Definitions and Terms Supplement
2. Matrix Support Agreement (MSA). *Signed per dealer.*
3. Relationship Supplement. *Signed per matrix and dealer.*
4. Transaction Supplement. *Signed per trade.*

Equity Matrix



General Terms Definitions and Confirmation Supplement (Operative Provisions + Definitions)

MSA

RS/TS

Negotiation Parameters

- The **exact parameters** of how the RS or TS may be negotiated will be identified as part of the template for that Transaction Type. It will **not** include the entire menu of possible choices, but **only** those items identified by the Working Group and specified as electable fields in the GTC.
- Items that are subject to negotiation will be presented as **menu items** for the parties to choose from. The **parameters** and **conditions** for each field will also be identified.
- This use of menus, combined with a clearly defined and **limited** set of negotiable terms will allow for the creation of an electronic platform where all relevant contract terms can be agreed in **a timely manner**.

11 Definitions – Fields & Elections

- **No drafting.**
- **Just check the box.**

RS (partial)

Field	Election
Party A	<i>ABC Bank, NA</i>
Party B	<i>XYZ Fund, Ltd</i>
Calculation Agent	<input checked="" type="checkbox"/> ISDA Master Calculation Agent <input type="checkbox"/> Party A <input type="checkbox"/> Party B <input type="checkbox"/> MSA Calculation Agent
Hedging Party	<input checked="" type="checkbox"/> Party A <input type="checkbox"/> Party B <input type="checkbox"/> Either Party
Settlement Currency	<i>USD</i>
Settlement Cycle*	<input type="checkbox"/> [number of type of day] <input checked="" type="checkbox"/> 2 Currency Business Days (SettleCcy) <input type="checkbox"/> 3 Currency Business Days (SettleCcy)
Notice Exchange	<i>NYSE</i>
Illegality Event Determining Party	<input type="checkbox"/> Party A <input checked="" type="checkbox"/> Calculation Agent <input type="checkbox"/> Either Party
Date of the Relevant ISDA Master Agreement	<i>January 4, 2014</i>

TS (partial)

Field	Election
Trade Date	<i>July 1, 2014</i>
Underlier	<i>S&P 500 Index</i>
Settlement Currency	<i>USD</i>
Settlement Cycle*	<input type="checkbox"/> [number of type of day] <input checked="" type="checkbox"/> 2 Currency Business Day (SettleCcy) <input type="checkbox"/> 3 Currency Business Day (SettleCcy)
Observation Period Start Date	<input checked="" type="checkbox"/> Trade Date <input type="checkbox"/> [date]
Equity Valuation Date	<i>December 1, 2014</i>
Volatility Buyer	<input type="checkbox"/> Party A <input checked="" type="checkbox"/> Party B
Volatility Seller	<input checked="" type="checkbox"/> Not Vol Buyer <input type="checkbox"/> Party A <input type="checkbox"/> Party B
Vega Notional Amount	<i>100,000</i>
Volatility Strike Price	<i>15</i>
NDIP	<input checked="" type="checkbox"/> SchedNDIP <input type="checkbox"/> [number]
Cap Feature	<input checked="" type="checkbox"/> No Volatility Cap <input type="checkbox"/> Volatility Cap