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September 24, 2021

Dear Presidents, Chairs, Chief Executives and Executives,

**Cessation of support for the 2006 ISDA Definitions and adoption of the 2021 ISDA Interest Rate Derivatives Definitions**

On June 11, 2021 ISDA published the 2021 ISDA Interest Rate Derivatives Definitions as a replacement for the 2006 ISDA Definitions. The 2006 Definitions have played a pivotal role in the interest rate derivatives markets for the past 15 years, including introducing robust fallbacks for interbank offered rates like LIBOR. They are, however, well past their best. In order to understand the terms of a trade executed today, market participants have to wade through nearly 90 supplements (amounting to 586 pages of amendments) as well the main book. That is clearly not a

sustainable situation. And even with all those amendments, the 2006 Definitions have fallen behind the times in certain key areas.

Given these issues, ISDA has announced that it will **stop** supporting the 2006 ISDA Definitions following October 4<sup>th</sup> 2021<sup>1</sup>. This means that when new amendments, fallbacks or Floating Rate Options have to be initiated, ISDA will only update the 2021 Definitions and will not produce Supplements for the 2006 Definitions.

While the new 2021 Definitions retain a significant amount of what continues to work well in the 2006 Definitions (including the IBOR Fallbacks), we believe some of their key changes represent a quantum leap forward for buy-side and corporate end users<sup>2</sup>. In particular:

- (i) Publication of the 2021 Definitions on the ISDA MyLibrary<sup>3</sup> platform means they can be amended and restated in their entirety each time they require updating. That means no more juggling Supplements. The platform highlights changes between versions so you can always have a consolidated view of how they have evolved over time
- (ii) The Calculation Agent's duty in acting and making determinations has been upgraded<sup>4</sup> to a more objective standard
- (iii) Parties now have the right to request a statement setting out the Calculation Agent's determinations in reasonable detail including Relevant Market Data they relied on and additional rights to challenge the determination by submitting their own Relevant Market Data
- (iv) The procedures used to determine the value of swaps that are early terminated or swaptions that are cash settled have been improved, with the old broadly-drafted 'Cash Price' methodology replaced by new Cash Settlement methods that strictly prescribe the basis of determination. We believe that will significantly reduce the scope for Calculation Agents and quoting banks to have to use potentially subjective interpretation on whether to include or exclude key economic inputs;
- (v) Trades can now include standard Cash Settlement methodologies which give buy-side parties the right to nominate some of the reference banks that are approached for quotations and even to request those quotations themselves.

We understand that transitioning to the 2021 Definitions may feel disruptive and that some may prefer to stick with what they know. Adopting the 2021 Definitions, though, will avoid continuing to reference a set of definitions which will rapidly become stale.

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<sup>1</sup> An existing pipeline of Supplements will be published after October 4<sup>th</sup> 2021. ISDA does not intend to initiate new amendments once that pipeline runs dry. Protocols used to amend legacy trades will continue to apply to trades that reference the 2006 Definitions for the foreseeable future.

<sup>2</sup> Detailed descriptions of these improvements can be found here: <https://www.isda.org/2021/06/24/key-changes-in-the-2021-isda-interest-rate-derivatives-definitions/>

<sup>3</sup> <https://isda.mylibrary.org>

<sup>4</sup> The Calculation Agent must now use commercially reasonable procedures to produce a commercially reasonable result (taken from the 2002 ISDA Master Agreement Close Out provisions) instead of 'commercially reasonable endeavours' under the 2006 Definitions.

It will also result in non-cleared trades aligning with the cleared market. Most major CCPs globally have announced that they will reflect the 2021 Definitions in their rulebooks with effect from October 4th 2021<sup>5</sup>. That means, while CCPs will continue to accept both 2006 Definitions trades and 2021 Definitions trades for clearing, the cleared exposure will be subject to rule books which reflect the 2021 Definitions upon the occurrence of life-cycle events<sup>6</sup>. Importantly, some CCPs will run their RFR cleared trade conversions (such as the EONIA to €STR in October and LIBOR to RFR conversions towards the end of the year) so that the resultant RFR trade will be under the 2021 Definitions.

In the non-cleared market, more of a phased adoption approach is being taken. The lack of a big-bang adoption date may mean that your members have not yet have encountered the kind of intense outreach they have seen previously from their dealers, particularly where a regulatory mandate has been involved. I would strongly encourage your members, however, to reach out to their dealers pro-actively in order to start the process of transitioning to the 2021 Definitions. Although it may be tempting to put off that conversation until another time, the combination of LIBOR transition processes at the end of the year and the prospect of the 2006 Definitions becoming stale, mean that starting the process now should result in significant efficiencies later.

The creation of the new definitional booklet was significantly driven by a desire to provide buy-side and corporate end users with a better outcome in the derivatives market. We were very grateful to our buy-side members and the buy-side associations who dedicated significant time and resources into ensuring that was achieved. We believe it is now in your members' interests to ensure they take steps today that will allow them to enjoy the benefits of all that endeavour.

My staff and I stand ready to help answer any questions you might receive on the contents of this letter.

Yours sincerely



Scott O'Malia  
Chief Executive

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<sup>5</sup> LCH, CME, EUREX, HKEX, KRX and ASX are all expected to adopt the 2021 Definitions with effect from October 4<sup>th</sup>. JSCC has announced it will adopt the 2021 Definitions from December 6<sup>th</sup>.

<sup>6</sup> Note that, in recognition that not all parties may be ready operationally to consume 2021 Definitions messaging, the CCPs will continue, for a finite transitional period, to message back using the format of the definitional booklet for the submitted trade. Lifecycle events under those trades, however, will continue to be processed under rulebooks which reflect the 2021 Definitions.