

ISDA FX Definitions – Update Strategy

ISDA recently undertook a survey¹ to better understand if and how the 1998 FX and Currency Option Definitions (FX Definitions) and related documentation such as Annex A, supplements, additional provisions, forms of confirmations and template terms might be improved and updated, taking into account developments and events in the FX market (e.g., currencies becoming non-deliverable) and the general evolution of FX trading since 1998. Over 50 market participants submitted thoughtful responses to ISDA’s survey and additional market participants (including additional buyside) provided feedback to ISDA separately.

Based on survey responses, ISDA proposes the following next steps, which will result in new FX Definitions to be implemented towards the end of 2027.

Form of Update

The new FX Definitions will be a consolidated and natively digital set of components, including a Main Book and several Annexes/Matrices. Consistent with ISDA’s overall document digitization strategy, the definitions will be compatible with FpML and CDM.

Diagrams of the current FX Definitions and the proposed new FX Definitions are attached.

Based on survey results, the new FX Definitions will consist of the components listed below. All of the changes within these components received support from a significant majority of survey respondents. Note that ISDA is also considering whether to include updates requested by the ISDA FX Operations Working Group that otherwise would have been added as a supplement to the current FX Definitions. Among other things, ISDA needs to confirm that a significant majority of market participants support including any such updates in the new FX Definitions.

- Main Book:
 - Format: The Main Book will consist of the provisions in the existing FX Definitions, as well as additional Articles for the Articles that have been added by Supplements published to date (excluding Supplements that have been superseded by more recent Supplements). Other than as noted below, the provisions of the Main Book will remain substantively the same but will be re-drafted to support digitization and digital consumption, as well as to reconcile defined terms and concepts (e.g., Business Day, Business Day Convention, Spot Rate, Settlement Date) for which the same or similar terms are defined differently in the existing FX Definitions and related documentation (including the EMTA Template Terms). The format (i.e., order of articles, etc.) will also generally remain the same. This work will take into account differences across the existing documentation as well as deviations between the current documentation and market practices. However, ISDA will minimize changes to taxonomies and other embedded aspects of the current FX Definitions except as strictly necessary to effectuate the desired updates.

¹ The survey remains available <https://www.isda.org/2023/04/19/isda-fx-definitions-market-participant-survey/>.

- Substantive Updates: As part of drafting the new FX Definitions, ISDA will consider with its members and relevant stakeholders the following substantive updates:
 - Disruption Events/Disruption Fallbacks: Updates to the Disruption Events/Disruption Fallbacks for FX. Among other things, this work may include amendments to existing Disruption Events/Disruption Fallbacks, addition of Disruption Events/Disruption Fallbacks, development of different consequences for different Disruption Events and consolidation/incorporation of the provisions for CNH (offshore deliverable CNY) and RUB deliverable currency disruption events.² This work will be in coordination among ISDA, EMTA and GFXD.
 - Calculation Agent: Updates to the Calculation Agent provisions incorporating dispute mechanics or joint Calculation Agent wording based on the Calculation Agent standards in the 2021 ISDA Interest Rate Derivatives Definitions (as well as the EMTA-developed Calculation Agent provisions for non-deliverable transactions).
 - Rounding: Updates to the rounding conventions, e.g., in the context of cross-currency settlement rates.
 - Fallbacks: Inclusion of the fallback provisions in the ISDA Benchmarks Supplement.
 - Novation Protocol: Simplification and incorporation of the process for novations and collapses currently addressed in the ISDA Master FX Novation and Cancellation Protocol.
 - Unexpected Holidays: The Global Foreign Exchange Committee (GFXC) recently asked ISDA to consider whether FX documentation should address the economic discrepancies that arise when a holiday is scheduled after the trade date for an FX transaction (e.g., a day of mourning) but the forward price does not change to address the addition of an extra non-business day. ISDA is in the very early stages of discussing this issue and potential solutions with its members, but if these discussions result in substantive changes, ISDA will include those changes in the new FX Definitions.
 - CBDCs: Consideration of whether updates are required to anticipate the development of CBDCs. Note that this work will also have to account for the interplay between the new FX Definitions and the ISDA Digital Assets Definitions. Note also that, depending on the development of this market, it may be more appropriate to address CBDCs in a future version³ of the new FX Definitions and/or ISDA Digital Assets Definitions published after the implementation date for the new FX Definitions.

² Note that ISDA members support work on these topics irrespective of whether ISDA undertakes broader updates to the FX Definitions and we plan to commence substantive discussions in our working groups during Fall 2023.

³ See below regarding future versions of the new FX Definitions.

- Annexes: Annex A will remain an Annex but will be re-structured into a matrix/table format, separated into a portion for settlement rate options and a portion for substantive provisions related to non-deliverable currencies. Certain Additional Provisions and Bilateral/Multilateral Amendment Agreements will become Annexes or other components of the new FX Definitions (on consolidated/rationalized basis to the extent that existing Additional Provisions are duplicative or conflicting). Publishing all of these materials as Annexes or other components will eventually allow for hyperlinking with terms in the Main Book and across other components.
- EMTA Template Terms: The EMTA Template Terms and EMTA/SFEMC Template Terms will remain separately published documents. However, many (if not all) will be republished with reference to new standard terms that will be reconciled and added to the Main Book (e.g., *Unscheduled Holiday*, *Valuation Postponement for Price Source Disruption*, *Cumulative Events*). This will streamline the EMTA Template Terms, eliminate or at least reduce inconsistencies between the EMTA Template Terms and the broader definitions and allow for more efficient publication of new EMTA Template Terms that leverage standard provisions in the Main Book.
- Confirmations Template Library: A library of existing and new confirmation templates will be published as a component to the new FX Definitions. These confirmations will cover the types of transactions covered by existing Master Confirmation Agreements and Confirmation Agreements, as well as potentially transactions contemplated by existing Additional Provisions. As noted above, this will allow for hyperlinking with terms in the Main Book and across components.
- Consolidated Index of Terms: A consolidated index of all terms (including terms in the EMTA Template Terms and terms in components other than the Main Book) will be published as a component to the new FX Definitions to allow for hyperlinking with the Main Book and across components.

The Main Book and the Annexes will be “versionable” so that ISDA can publish a new version from time to time with revised and/or new provisions in response to developments in the FX market. Upon publication of a new version, the updated provisions would automatically apply to all new and rolled FX transactions entered on or after the effective date of the new version (but would not apply to any FX transactions entered before that date). This is in contrast to the existing FX Definitions, which cannot be updated (and, therefore, updates must be made by Supplements that counterparties have to separately incorporate into their Transactions).

Update Strategy

Timing and Market Implementation

Drafting will take place throughout 2024 and 2025. ISDA expects that it will finalize the new FX Definitions by November 2025 in order to allow time for implementation by infrastructure providers and market participants. ISDA will submit the final definitions to SWIFT in May 2026 (assuming SWIFT’s cycle for submissions remains the same). Implementation will then occur in November 2027 to align with SWIFT’s release schedule (again, assuming SWIFT’s cycle for submissions remains the same) and give market participants at least 2 years to update their systems and take other steps necessary for usage of the new FX Definitions. As described below, ISDA will also work with other relevant infrastructures to accommodate this implementation timing.

Upon implementation of the new FX Definitions, market participants will reference them in all new FX transactions (including rolls of existing transactions). CCPs will reference the new FX Definitions in new and existing cleared FX transactions. Non-cleared FX transactions existing prior to the implementation date will continue to reference the existing FX Definitions (and/or related documentation). However, based on BIS data, almost 80% of FX transactions roll over each year and more than 90% roll over within five years. Therefore, the amount of time during which there will be basis between legacy non-cleared derivatives that do not use the new FX Definitions and new derivatives that do use them will be relatively short.

Drafting and Feedback

ISDA is developing a plan for drafting the new FX Definitions that will ensure market participants and stakeholders in all jurisdictions and across functions (e.g., trading, operations, legal) and stakeholder groups (e.g., dealers, buy-side, infrastructure providers) engage and provide feedback. ISDA will develop and publish a schedule for when it will circulate each draft of each of the pieces described above and when feedback will be due. From time to time, ISDA will host calls/webinars to explain the drafting and answer questions. More traditional “working group” calls will be held as necessary when discussion is required to resolve particular issues. The issues will be framed and socialized well in advance of these calls so that the relevant stakeholders are able to participate and provide meaningful feedback supported by their firms.

At this time, ISDA expects to complete drafting in 2024 for Disruption Events/Disruption Fallbacks, reconciliation and streamlining of the EMTA Template Terms and the bulk of the work to consolidate existing components (e.g., Supplements) into the Main Book. ISDA expects that the remaining drafting will occur in 2025.

ISDA also expects to engage a consulting firm to identify and analyze operational implications of the new FX Definitions at an appropriate time during the drafting process in order to minimize operational burdens associated with the changes and assist market participants in making operational updates efficiently and cost effectively. The firm will also advise ISDA on operational implications of drafting decisions in order to minimize operational burdens of the updated provisions before the new FX Definitions are final.

Among other things, ISDA will prioritize ensuring that infrastructures, including SWIFT, will implement the new FX Definitions on the implementation date. As of now, we expect to submit the final new FX Definitions during a standard SWIFT update cycle but we hope to confirm ahead of time that such submission will be approved. ISDA will also work with SWIFT and other infrastructures to understand their processes for implementing future versions of the new FX Definitions and ensure that such implementation will be timely and efficient.

CURRENT FX DEFINITIONS DOCUMENTATION ARCHITECTURE

ISDA's 1998 Definitions were published to provide a framework for the confirmation of privately negotiated FX and currency option transactions. The main booklet of the FX Definitions includes:

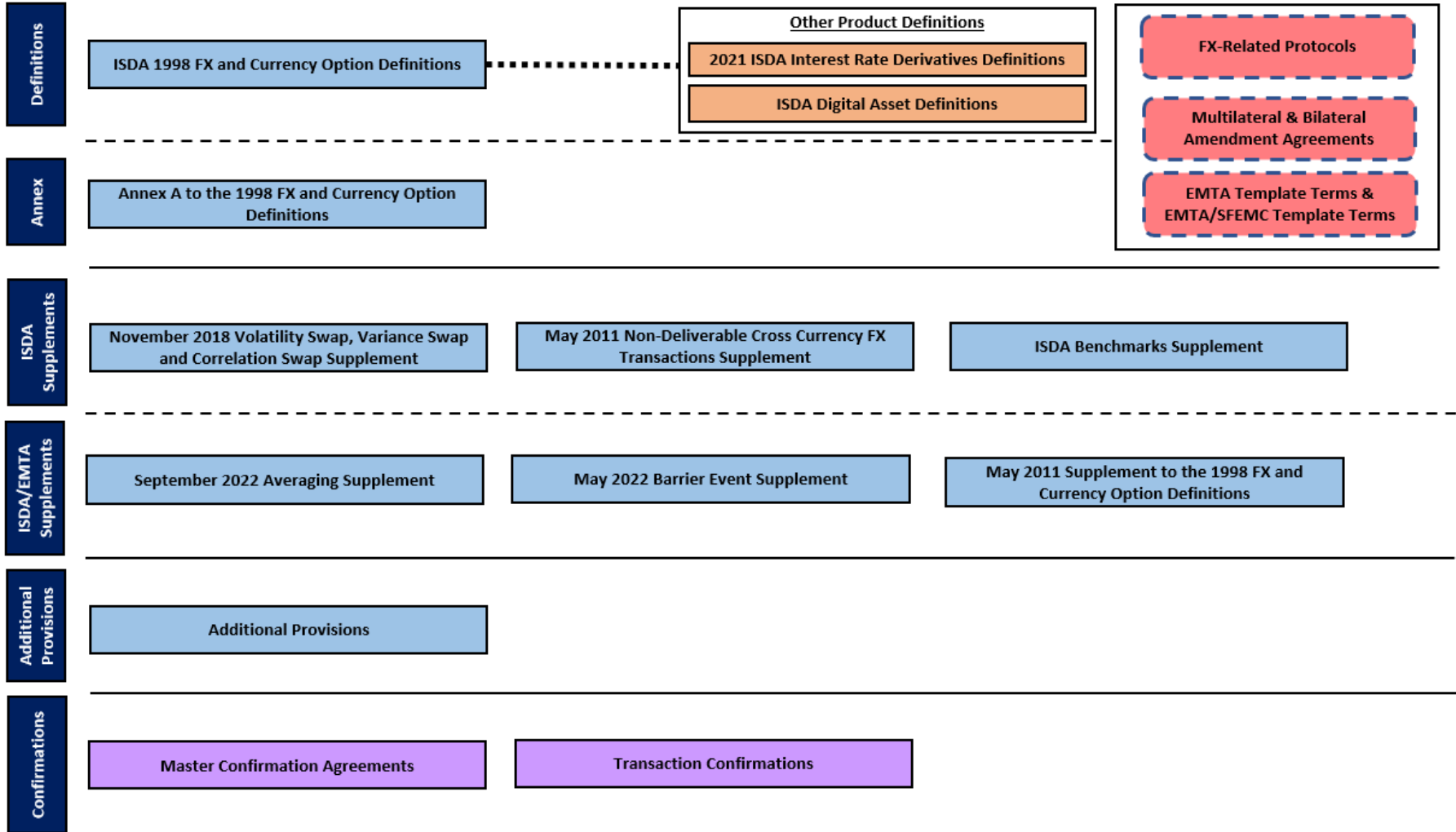
- Article 1: Certain General Definitions
- Article 2: General Terms Related to FX Transactions
- Article 3: General Terms Related to Currency Option Transactions
- Article 4: Calculation of Rates for Certain Settlement Rate Options (inclusive of related Annex A)
- Article 5: Disruption Events
- Article 6: Terms Applicable to FX Volatility Swaps, FX Variance Swaps and FX Correlation Swaps (published in supplement form)
- Article 7: Terms Relating to Barrier Transactions (published in Supplement form)
- Article 8: Terms Applicable to Transactions that have Averaging Dates (published in Supplement form)
- Exhibit I: Sample Form of a Letter Agreement
- Exhibit II: Sample Forms of Specific Provisions for Different Types of Transactions
- Index of Terms

Related documentation (starting with Annex A) has been published over time by ISDA and/or EMTA for use by parties to augment these provisions. This related documentation includes Additional Provisions and Supplements, which add additional Articles and provisions to the FX Definitions. Importantly, unlike Supplements for certain other asset classes, parties need to incorporate the Supplements into their transactions for them to apply. Transactions could be entered into pursuant to Master Confirmation Agreements or Transaction Confirmations incorporating or referencing the applicable documents. For a full list of Additional Provisions and descriptions of current and historical documentation, please see the Guide to ISDA and EMTA FX Derivatives Documentation and Currency Provisions (published April 19, 2023) in the ISDA Bookstore at <https://www.isda.org/book/guide-to-isda-and-empa-fx-derivatives-documentation-and-currency-provisions/>.

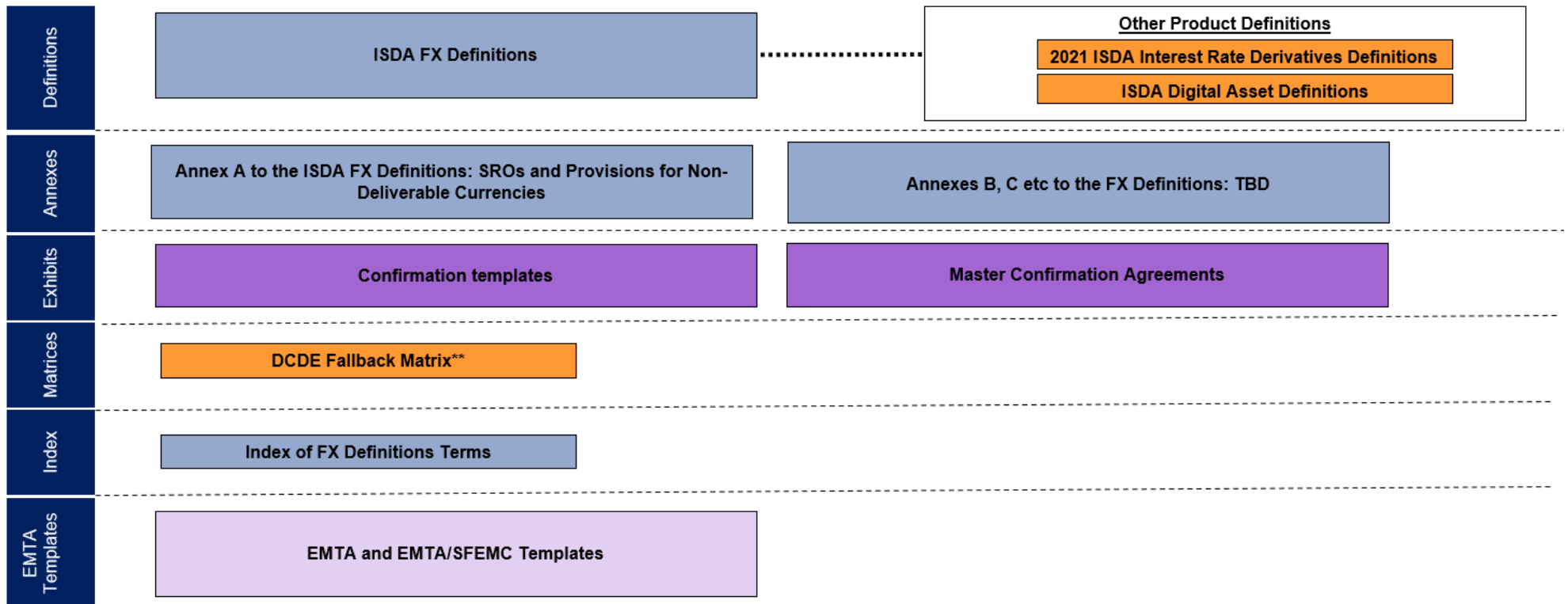
Other documentation that is related to (but not directly a part of) the FX Definitions include the EMTA Template Terms and the EMTA/SFEMC Template Terms, which were prepared specifically as recommended best practices for non-deliverable FX and currency option transactions (incorporating many of the FX Definitions), Protocols (such as the ISDA Master FX Novation and Cancellation Protocol) and Multilateral and Bilateral Amendment Agreements.

The following diagram represents key pieces of documentation for FX transactions, although it is not exhaustive. Please refer to the above-mentioned guide for a more comprehensive list of documents.

Current FX Market Documentation



Updated FX Market Documentation



** This matrix is for use with 'Deliverable Currency Disruption Events' and currently straddles the FX Definitions and the 2021 Definitions. This documentation structure assumes that the related CNY Additional Provisions and DCDE Provisions are incorporated into the FX Definitions Main Book as part of the Disruption Events/Disruption Fallbacks workstream. The matrix itself is also subject to review/revision in connection with that workstream.