CIG Sub – Group | CREDIT : Consent = Confirmation

ISDA Presentation : Credit Consent = Confirmation – October 2010
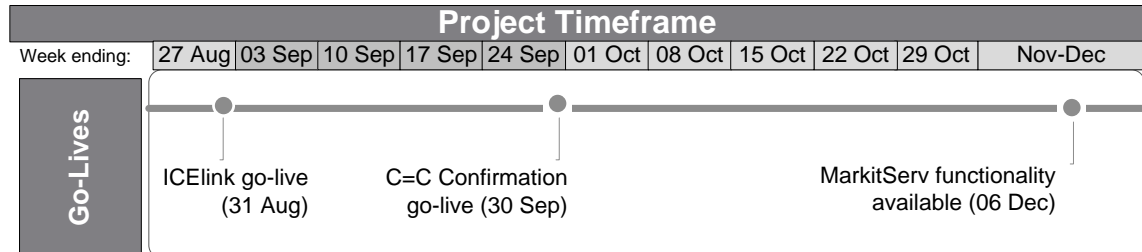(REVISED)

Credit : Consent = Confirmation │ Contents

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Credit : Consent = Confirmation │ Overview

What is the change?

- The credit derivative industry has been working to improve the processing of Novations for a number of years. On 17 July 2009, the signatories to the letter sent to the Federal Reserve Bank committed to change the Novation process such that the action of consent for eligible trades would achieve a valid legal confirmation. This follows a series of commitments made by the Operations Steering Committee, in conjunction with both the ISDA Industry Governance Committee and the Credit Steering Committee to significantly improve Novation processing.

- The overall objective is to replace the current two-step practice of consent followed by confirmation with an <u>automated, single step process for parties to provide their consent and their legal confirmation to a Novation</u> at the same time.

When will the change be effective?

- The Industry will be live for Consent = Confirmation <u>September 30th 2010</u>.

- IceLink will support the Industry with a pre launch.
Ice will go live <u>31st August 2010</u>.

- MarkitSERV functionality will be available on <u>6th December 2010</u>.

Project Timeframe										
Week ending:	27 Aug	03 Sep	10 Sep	17 Sep	24 Sep	01 Oct	08 Oct	15 Oct	22 Oct	29 Oct	Nov-Dec

Go-Lives

ICElink go-live (31 Aug)   C=C Confirmation go-live (30 Sep)   MarkitServ functionality available (06 Dec)
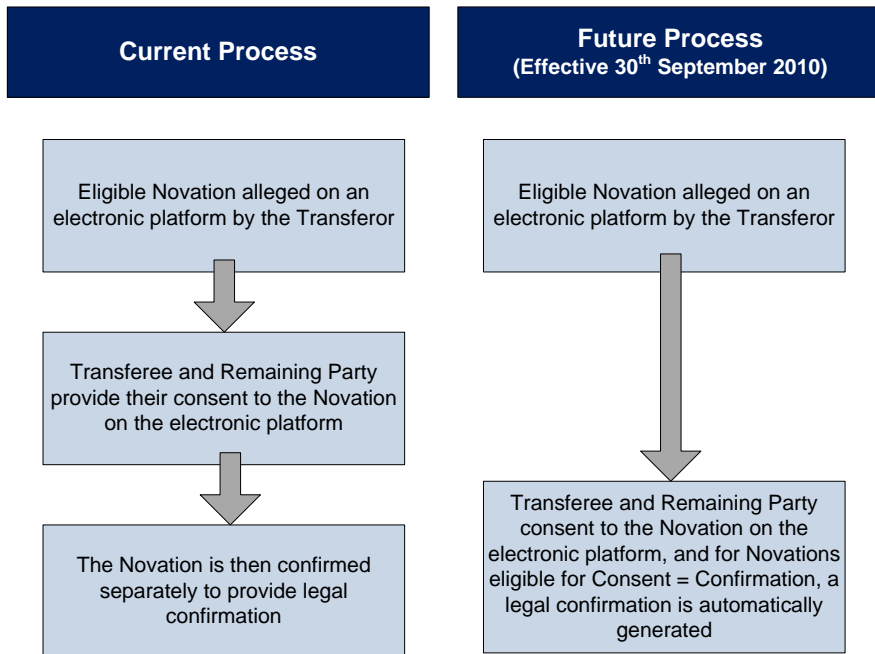
Credit : Consent = Confirmation │ How does this change impact you?

This is an industry wide initiative and is therefore <u>applicable to all industry participants</u>. Any participant that trades a product that is live in the Credit TIW for electronic confirmation will be affected.

What are the benefits

- One-step process – only one upload will be required reducing risk and resourcing.
- Pre-affirmation process – will reduce discrepancies and should therefore improve accuracy and matching rates.
- Encourages trade date processing.

Current Process	Future Process (Effective 30th September 2010)
Eligible Novation alleged on an electronic platform by the Transferor	Eligible Novation alleged on an electronic platform by the Transferor
Transferee and Remaining Party provide their consent to the Novation on the electronic platform	Transferee and Remaining Party consent to the Novation on the electronic platform, and for Novations eligible for Consent = Confirmation, a legal confirmation is automatically generated
The Novation is then confirmed separately to provide legal confirmation	

What does my firm need to do to be ready to Support C=C?

- Subscribe to a vendor capable of supporting Consent = Confirmation

- Review the available documentation:
    - Business Requirements, Best Practices document and the ISDA Novation Additional Provisions will be available on the ISDA website.
    - Functional and messaging specifications and operating procedures are available directly from the respective vendors.

NB. The Business Requirements, Best Practices document and the ISDA Novation Additional Provisions are also available on request from Sapient, the Project Managers.

Credit : Consent = Confirmation │ Eligibility for Consent = Confirmation

Which transactions will be eligible for consent = confirmation?
An eligibility matrix will be made available which will provide a detailed summary of when a Novation will be eligible for consent = confirmation (or just consent). Eligibility can be summarized however, at a high level, into 4 general types of transactions;

Outside Novations:
Novation Consent Platforms will provide workflow to support the processing of Outside Novations (where the original transaction being assigned does not exist in TIW).

Consent will not equal confirmation, however.

Unconfirmed trades:
Should a Novation request be submitted on an eligible transaction that has not yet been confirmed in TIW, the Transferor and Remaining Party have until 4pm (New York Time) on Novation Trade Date +1 to ensure the original transaction being assigned is confirmed.

If the original transaction remains unconfirmed at 4pm (New York Time) on Novation Trade Date +1, the Novation request will expire.

Supplementary static data required:
For September 30th, some restrictions are being put in place which will limit the scope of transactions eligible for Consent =Confirmation.

The following must apply for trades to be eligible for Consent=Confirmation:

× The trade type is one where the *new* transaction can be confirmed using a vanilla transaction type (matrix or STS).
× The Transferee and Remaining Party are both **FED 14 firms**.

Novations for which the above logic does not apply, consent will not equal confirmation.

Consent = Confirmation:
Confirmed trades in TIW, both those that have a status of "certain" and "uncertain" will be eligible for Consent =Confirmation. Once all three parties have agreed ("affirmed") the Novation request, a complete assignment confirmation record will be generated.

There will be one notable exception to this rule*;*
×Trades that are "uncertain" because of an **exit** or **amendment** or that have insufficient notional.
As with the process for unconfirmed trades, firms will have until 4pm (New York Time) on Novation Trade Date +1 to resolve the break causing the trade to be uncertain.
If the original transaction remains uncertain at 4pm (New York Time) on Novation Trade Date +1, the Novation request will expire.

The Novation Consent Platforms will own the above logic and will notify parties of these conditions.

Credit : Consent = Confirmation │ ISDA Novation Additional Provisions

To implement the operational changes for C=C, certain rules that apply under the ISDA Novation Protocol II require amendment.

How will these rules be amended?

▪ The C=C amendments to the rules in the Novation Protocol will be made via the _Additional Provisions for Consent to, and Confirmation of, Transfer by Novation of OTC Derivative Transactions,_ published by ISDA on 25 August, 2010.

▪ Parties will **_NOT_** be required to re-adhere to the Novation Protocol.

▪ Each User of a Novation Consent Platform, containing these additional provisions, by use of the platform agrees that these additional provisions supersede the existing Novation Protocol for purposes of a novation consent request processed on the platform.

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What are some of the changes?

▪ The Novation Protocol provided a means for Remaining Party to give consent to a proposed novation that has been agreed by Transferor and Transferee, and provided consequences if that consent is not given by 6pm on the novation trade date. If Remaining Party does not consent, then:

> ▪ The novation is cancelled; and
> ▪ A transaction is deemed to come into effect between Transferor and Transferee that mirrors the terms of the transaction (between Transferor and Remaining Party) that Transferor and Transferee had agreed to novate

▪ Under the new rules, Transferor, Transferee and Remaining Party are **all** required to take positive action on the platform, otherwise the consequences will be as set out above.

▪These consequences will apply at **5pm** (New York Time) on **the business day following** the novation trade date if the novation consent process has not completed – they may also apply earlier in certain circumstances.
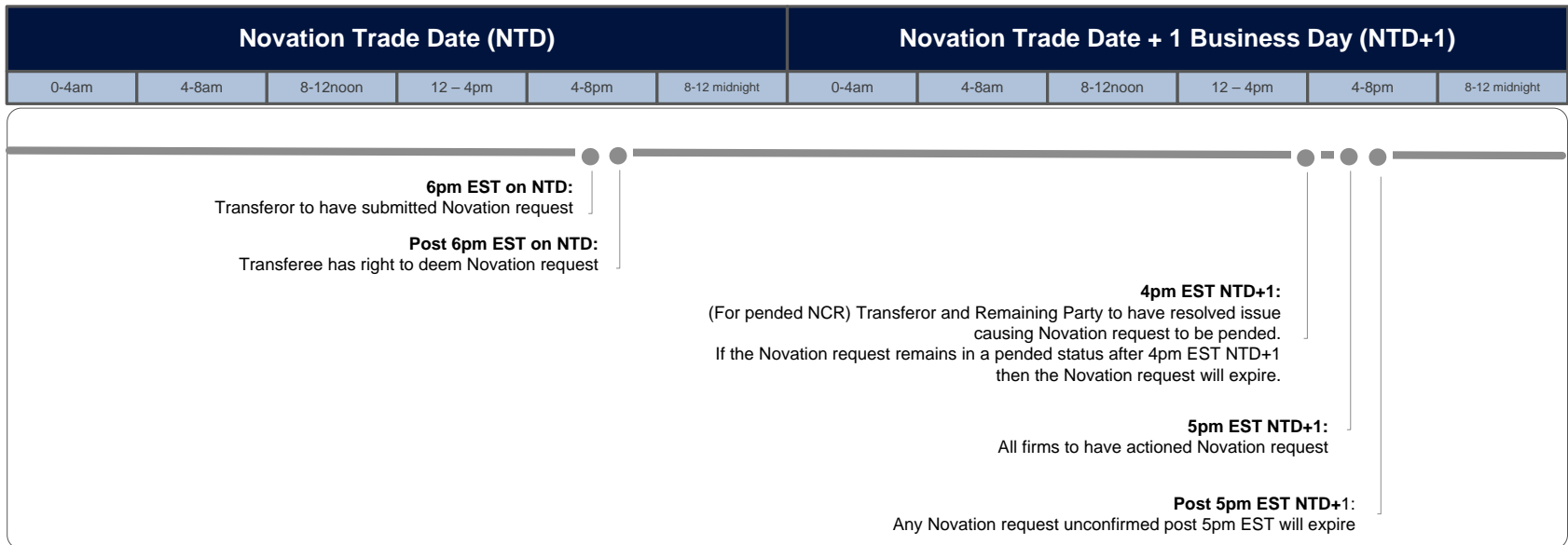
Key Principles:

- All Transferor messages for inside Novations regardless of the Novation's eligibility for consent only or consent = confirmation will be submitted by the Novation Consent Platforms to DSMatch. It will therefore be mandatory that all Transferor parties (buy and sell side), suppress their messaging to DSMatch for all inside Novations.

- The Transferee and Remaining Parties will be required to suppress messaging to DSMatch for inside Novations being processed under consent = confirmation workflow only.

NB: *Not all messages to DSMatch will be suppressed - all other lifecycle event messages need to be sent to DSMatch. Messaging from DSMatch will continue as per current process.*

- Fees must be agreed between Transferee and the Transferor to effect confirmation, thus both parties are required to submit fees on Novation Consent Platform.

- The new transaction between Remaining Party and Transferee will have identical information to the original TIW record (with the exception of the pre-agreed rule-based updates). Firms will not be able to modify ISIN, reference entity name, or any of the other economic fields of the original transaction. If they wish to do so at a later time, they can amend the newly-created TIW record.

- The Novation Consent Platforms will not enforce any sequence of consent. Both the Transferee and Remaining Party can consent to a Transferor's Submitted Novation Consent Request, at any time between the submission of the Novation Consent Request and 5pm (New York Time) on the Novation Trade Date +1 business day.

- The Remaining Party consent will **not** be visible to the Transferor or Transferee until the Transferee has consented to the Novation Consent Request.

Credit : Consent = Confirmation │ Key Principles : Timelines

Timelines:

- In keeping with the 2005 Novation Protocol, the Transferor must submit the Novation request by 6pm (New York Time) on Novation Trade Date.

- The Transferor can recall the Novation request at any time post submission and pre 5pm (New York Time) Novation Trade Date +1 business day, at any time before all 3 parties have affirmed.

- Firms have until 5pm (New York Time) on Novation Trade Date + 1 business day to provide consent (and confirmation) to the Novation request. (NB. It is expected that Transferee and Remaining Party will do everything possible to consent and confirm the Novation request on Novation Trade Date).

- Transferee can deem a Novation request at any point post 6pm (New York Time) on Novation Trade Date and before 5pm NY Novation Trade Date + 1 business day.

- Should a Novation request be submitted and pended (see slide 5), firms have until 4pm (New York Time) Novation Trade Date + 1 business day to resolve the issue causing the Novation request to be pended. If the Novation request remains in a pended status after 4pm (New York Time) Novation Trade Date +1, then the Novation request will expire.

Novation Trade Date (NTD)						Novation Trade Date + 1 Business Day (NTD+1)					
0-4am	4-8am	8-12noon	12 – 4pm	4-8pm	8-12 midnight	0-4am	4-8am	8-12noon	12 – 4pm	4-8pm	8-12 midnight

6pm EST on NTD:
Transferor to have submitted Novation request

Post 6pm EST on NTD:
Transferee has right to deem Novation request

4pm EST NTD+1:
(For pended NCR) Transferor and Remaining Party to have resolved issue causing Novation request to be pended.
If the Novation request remains in a pended status after 4pm EST NTD+1 then the Novation request will expire.

5pm EST NTD+1:
All firms to have actioned Novation request

Post 5pm EST NTD+1:
Any Novation request unconfirmed post 5pm EST will expire

Credit : Consent = Confirmation │ Additional Information

Where can I find additional information or learn more about this initiative?

▪ All relevant materials supporting Consent = Confirmation will be available by request from either the vendor or from the PMO. In addition, general C=C materials will be available on the ISDA website.

▪ Both MarkitSERV and ICE Link are offering vendor specific training. The current schedule for this training is included below:

Vendor Webinar Training Schedules	Contact Information
ICE Link: C=C General Overview via Webinar	
https://icewebinar.webex.com/icewebinar/lsr.php?AT=pb&SP=EC&rID=2522077&rKey=7f091cf91f53d845	
ICE Link User Training via Webinar Training sessions are available every Wednesday at 11 AM New York/4 PM London through September 8. Additional sessions will also be scheduled. ICE Link will send invitations in advance of each session. Register for currently available sessions at: https://icewebinar.webex.com/mw0306lb/mywebex/default.do?siteurl=icewebinar	ICELinkCS@theice.com
MarkitSERV: Preparing for Credit Novation Consent - Confirmation via Webinar	
http://www.markitserv.com/ms-en/media-centre/preparing-for-novation-consent-confirmation.page	
MarkitSERV will offer weekly Webinars starting in Mid August. Webinar schedule will be posted on the MarkitSERV webpage: http://www.markitserv.com. Additional training sessions for the Buyside Working Group and Asia Working Group will be available in August. MarkitSERV will advise users by invitation to these sessions. Additional C=C training materials will be provided by MarkitSERV as they become available.	CeqC@markitserv.com

Credit : Consent = Confirmation │ Contacts

▪ For any additional information please contact Sapient who are acting as Project Managers for this initiative or ISDA.

Sapient: Olivia Millen   omillen@sapient.com

                                   Tom Fitzgerald   tfitzgerald@sapient.com

ISDA: Andrew Kayiira   akayiira@isda.org

                                   Nichole Framularo   nframularo@isda.org

▪ For any vendor specific information please use the contacts provided below.

IceLink: ICE Link Client Services   ICELinkCS@theice.com

MarkitSERV: MarkitSERV C=C Client Services   CeqC@markitserv.com