

Frequently Asked Questions

New selection process for Standard Reference Obligations (SROs)

1. What is an SRO?

One of the initiatives of the 2014 ISDA Credit Derivatives Definitions (2014 Definitions) was the standardization of Reference Obligations, by allowing for a “Standard Reference Obligation” or “SRO” to be published for a specified Reference Entity and seniority level. The published SRO is the Reference Obligation for all CDS transactions on that Reference Entity and seniority level (for which SRO is applicable), regardless of when the trade was executed.

2. Why were SROs introduced?

Standardization of the Reference Obligation removes the need for parties to agree specific Reference Obligations in confirmations or matching/affirmation platforms, unless the explicit intention is to agree a Non-Standard Reference Obligation, reducing the risk of trade breaks. It also removes potential basis risk between transactions that have the same Reference Entity but different Reference Obligations due to factors such as the market-standard Reference Obligations changing over time, or parties inadvertently specifying a Reference Obligation that would not otherwise qualify as a Deliverable Obligation. It also allows for consistent treatment of cleared and uncleared transactions. For further information on how to reference an SRO in paper and electronic confirmations, please see the [ISDA Best Practices for Confirming Reference Obligations or Standard Reference Obligations](#).

3. Where are SROs published?

The SRO Administrator publishes SROs, per Reference Entity and seniority level, on an SRO List. An SRO List is published per region and is available [here](#). Note that an SRO List may not be published and maintained for all regions.

4. Why have changes been made to the rules for determining SROs?

Under the original SRO Rules, a full legal review was required for both the initial determination of an SRO and for replacements of an SRO due to events such as maturity or redemption. However, it was not established how to fund the number of legal reviews necessary to grow and maintain the SRO List. This resulted in the SRO List covering only a small number of Reference Entities and consisting largely of matured obligations, which were not replaced. The main purpose of such a full legal review is to determine whether the proposed SRO would be deemed a “conforming” Reference Obligation – an obligation that would otherwise qualify as a Deliverable Obligation under the 2014 Definitions. This is important because for transactions under the 2014 Definitions, a “conforming” Reference Obligation can only be replaced by another obligation that is

also “conforming”, and a “non-conforming” Reference Obligation can only be replaced by another obligation that is also “non-conforming” for one or more of the same reasons. In many cases, however, there is already a clear answer to that question – when there is a market-standard obligation used for the Reference Obligation in index or cleared trades, or where a plain vanilla bond that is replacing another plain vanilla bond.

The new selection process is intended to increase the number of Reference Entries for which an SRO is published and facilitate the replacement of SROs by not requiring a full legal review unless identified as required by market participants. Under the new rules, a proposed SRO that is deemed a market standard only requires a full legal review if it is challenged by market participants. This is a more sustainable approach as it reduces the cost of maintaining an up-to-date SRO List and allows available funds to be directed to obligations where there are complexities that need to be assessed and where a full legal review is required.

5. What is the new process for determining SROs?

The new process for determining SROs is as follows:

- The SRO Administrator works with relevant ISDA committees to determine a preliminary list of potential SROs for a particular region within the scope of the new process that meet the eligibility criteria set out in the SRO Rules.
- A list of potential SROs that meet these criteria is then made available on the SRO Administrators website for market participants to review.
- A 30-calendar day ‘challenge period’ begins from when the list of potential SROs is made available on the SRO Administrator’s website.
- During this challenge period, market participants may challenge a proposed SRO, in writing to the SRO Administrator.
- If at least two valid challenges are received on a proposed SRO during the challenge period, that proposed SRO will be removed from the list.
- If only one valid challenge is received on a proposed SRO during the challenge period, an additional 15 calendar-day challenge period will open with respect to that proposed SRO from the end of the 30-day challenge period, to allow other market participants the opportunity to raise a second challenge.
- If one or more additional challenges are received during the additional challenge period, that proposed SRO will be removed from the list.
- Regarding proposed SROs that are successfully challenged, the SRO Administrator may send the relevant proposed SRO to the DC (Credit Derivatives Determinations Committee) for a full legal review, select an alternative obligation for that Reference Entity and seniority level to be proposed on a future list, or defer an SRO proposal with respect to that Reference Entity and seniority level.
- The proposed SROs that are not successfully challenged by the end of any additional challenge window will be published by the SRO Administrator on the relevant SRO List effective the next quarterly roll date (March 20th, June 20th, September 20th and December 20th).

Note that if a corporate action occurs on a proposed SRO from the start of the challenge period to the publication date, the SRO Administrator will remove such potential SRO from the list.

6. How can I submit a challenge on a proposed SRO?

Market participants can submit a challenge on a proposed SRO in writing through any of the following methods:

- via the [SRO Administrator's website](#).
- via the S&P Global Price Viewer Platform.
- via email to red@spglobal.com.

Please see the following [note](#) for more information on how to submit a challenge via these methods.

Any challenge must include information such as the Reference Entity name, ISIN and seniority level; the reason for the challenge (e.g. that the selection criteria has been incorrectly applied, or that another obligation is more appropriate – setting out the alternative obligation and reasons); and links to information and documents supporting the challenge.

7. What is the scope of the new selection process?

The SRO Administrator can propose an SRO under this new process for any Reference Entity and seniority level where one or more of the following criteria are satisfied:

- (i) it is included in the “on-the run” or in at least one of the most two recent “off-the-run” credit derivatives index;
- (ii) it is cleared by a CCP;
- (iii) it already had an SRO selected under this new process (e.g. replenishments of SROs that were previously determined via this new process).

8. How can an SRO be put in place for an entity that is outside the scope of this new process?

The original process for selecting an SRO (now known as the “Alternative Track”) is still available for situations including where the SRO Administrator determines that it is appropriate such as where an SRO needs to be adopted on an expedited basis, or where the DC is exercising its power to select an SRO on its own initiative.

SROs that are included in the SRO List and selected via Alternative Track, can be replenished under the new selection process provided that criteria described above is satisfied.

9. Is there a requirement to amend Confirmations?

Under the 2014 Definitions, provided that the published SRO would have been eligible as a Substitute Reference Obligation, and unless SRO is specified as “Not Applicable” in the Confirmation, the Reference Obligation is the Standard Reference Obligation (if one is published for that Reference Entity and seniority level).

Subject to the above, if a CDS transaction is confirmed with a specific ISIN for the Reference Obligation and subsequently an SRO is published for the relevant Reference Entity and seniority level, the ISIN specified in the Confirmation will be the Reference

Obligation for that transaction up to the publication of the SRO and the SRO will be the Reference Obligation for that transactions from the first date of publication of the SRO. There is no requirement in the 2014 Definitions to amend the Confirmation when an SRO is published, however some firms and CCPs may decide to update the Reference Obligation in the TIW record to the relevant dummy SRO ISIN, e.g. to align with their trade booking systems or for reporting purposes.

Please see the [ISDA Best Practices for Confirming Reference Obligations or Standard Reference Obligations](#).

10. Where can I find more information?

Please see the following [link](#) for information from the SRO Administrator on the first list of potential obligations published under the new process on the S&P Global website.

Contact ISDA for any questions: jmartin@isda.org, fquenzen@isda.org, and kmcfadden@isda.org.

Contact the SRO Administrator for any questions: charles.palmer@spglobal.com.

Join the ISDA Credit Market Infrastructure Group (<https://www.isda.org/committees/>) to participate in industry discussions regarding the processing of credit derivatives.