

## OTC Derivatives Settlements Best Practice Statements

### Pre Settlement Confirmations Guidelines

- Straight Through Processing of settlements should be the goal, given the proper controls are in place.
- The industry's primary focus should be on automatically reconciling all cashflows electronically before settlement date. Any product/cashflows that are eligible to be automatically reconciled to be onboarded to any appropriate platform by all market participants in a reasonable time frame.
- Settlement confirmation guidelines should be set internally based on the individual firm's risk policies and technological capabilities.
- General criteria used by Market participants in determining what can be processed STP without pre-confirmation include:
  - If the trade is due to settle on CLS
  - If the trade has been financially confirmed (DTCC, Swift Matched, Swapswire or Paper)
  - If the settlement amount is less than USD 10m equivalent value
- Depending on a firm's internal process and control infrastructure, they may choose to confirm settlements prior to value date. In this instance T+1 for fees, S-2 for coupons should be the market standard
- General criteria used by market participants in determining settlement types that may not be STP include:
  - Unconfirmed trades
  - Certain Fees/Premiums
  - SSIs not held or not used in the last 7 months
  - Counterparty sensitivity
  - Trade Complexity
  - Nets confirmed on PayRec or CFM
  - Payments over USD 10mn dollar value\*
  - First/Last Stub Payments
  - Illiquid / New Market currencies
- Participants should on a best efforts basis comply with other counterparties' requirements to confirm trades prior to settlement as a means of increased risk mitigation.
- Information for primary and escalation contacts will be available via the ISDA Website (members portal)

### Post Settlement

- Escalation of breaks or issues that are not receiving appropriate attention from primary contacts should be raised to escalation contacts where appropriate based on the size and age of the break
- Responses to Counterparty queries should be made within 24hrs of receipt.

\*The suggested bench mark for STP is USD 10mn but is subject to internal discretions and policy of the different participants that could vary in time. All participants should be able to pre-confirm cash flows if required.

## Write Off Guidelines

(To be read in conjunction with the Claims Best Practice Document available on the ISDA Website under Market Practice Statements, Operations.)

- Write off limits should be maintained internally within each firm.
- All participants will investigate exceptions raised by counterparties and settle interest claims where required, regardless of whether the items have been written off internally.
- Participants may choose to set interest claim limits for investigation and payment in-line with the International Securities Association for Institutional Trade Communication (ISITC) Claims Best Practice Guidelines.
- Brokers may agree bilaterally on limits for one off payments (fees, etc.) under which no investigation would be necessary.

## Unapplied Funds Guidelines

- The recommended pre settlement confirmation guidelines should reduce the risk of unapplied funds, however, should the receiving party not recognize the funds the following principles apply:
  - General
    - Receiving party owns contacting the paying party, including agent bank, to obtain further information prior to returning funds and will provide necessary details to identify those funds (e.g. SWIFT Field 21, 20)
    - Paying party must send trade details and/or relevant documentation when requested by receiving party e.g. Signed Confirmation, Novation documents.
    - If the funds don't pertain to the product area in question, the paying party may re-direct the query to the correct group, but is not obligated to do so. Where the paying party is not able to re-direct to the right group, the receiving party will have to send a SWIFT amendment through the agent bank
  - Investigation Timelines
    - Unapplied funds < USD equivalent of 5mm
      - Receiving party is entitled to return the funds where the paying party has not supplied the information required within 5 business days after first contact. The return is not mandatory but should not happen before the 5 business days are over unless mutually agreed by the parties.
    - High value unapplied funds ≥ USD equivalent of 5mm
      - Receiving party is entitled to return funds after a minimum of two unsuccessful attempts to obtain details from the Paying party without regard to the aforementioned 5 business day holding requirement.
    - Funds related to a trade settling via CLS
      - If funds are paid for a trade settled/expected to settle via CLS, the Receiving party need not await the confirmation from the Paying party and can return the funds as early as the date of receipt. Both the deadlines mentioned above will not be applicable in this case

## Settlement Lock-Ins

Historically lock-ins have been used to focus and manage large numbers of fails between Counterparties. These have not been required in the last 12 months but guidance on formatting is included in Appendix-1.

## Exception Resolution Timeframes

- Unapplied statement items: No exceptions over 5 days
- Quarterly Roll CDS Bilateral: No ledger exceptions over 15 days
- Non-Quarterly CDS Bilateral: No ledger exceptions over 10 days
- Quarterly Roll CDS Central Settlement: No ledger exceptions over 15 days
- Non-Quarterly CDS Central Settlement: No ledger exceptions over 10 days
- Interest Rate Swaps: No ledger exceptions over 20 days
- Equity Swaps/Options: No ledger exceptions over 10 days

## Standard Settlement Instructions (SSI) guidelines

- SSIs should be exchanged between settlement participants in a PDF/non amendable format
- The SSIs should be provided in an authenticated document preferably on letter headed paper
- Once SSIs are received, a “call back” function has to be performed to confirm the authenticity. This process should be completed by verifying the SSIs with a different person from the respective department
- In general any change in the SSIs should be communicated by the participants well in advance and also be completed through SWIFT broadcasts

## ISDA Markit Metrics guidelines

All participants will work internally to generate the proposed Markit Metrics as agreed and ensure they are submitted within the stipulated time. The participants will be compliant with the data requirements of the metrics. Please refer to the Markit Metrics guidelines document in Appendix- 2

**Please Note: This Best Practice Statement does not constitute legal, accounting or financial advice. Each participant in a transaction must satisfy itself that the recommendation is appropriate for the transaction and has been properly applied in the context of the transaction to reflect the commercial intention of the participants.**

## Appendix-1 Lock-Ins

### Settlement Lock-Ins

While increasingly infrequent in the climate of this document being written, the following guidelines remain on this document for use as and where appropriate

- To be initiated where applicable/necessary
  - Schedule
    - Lock-in schedules should be agreed between firms based on their capacity and requirements.
    - Participants should schedule as many lock-ins as required to investigate and resolve issues.
  - Template
    - Participants should use a consistent template agreed to prior to a lock-in.
    - The template should include all ledger exceptions and unadvised cash. The number of priority items for each firm should be kept within a reasonable range agreed by both counterparties that will allow the investigating party adequate time to review and resolve.
    - The template should include all relevant trade details that may help counterparts investigate exceptions.
  - Coordination
    - Each firm must designate a template coordinator for each of their respective counterparts. It is up to the individual institution whether they want to have one coordinator for all templates or multiple coordinators, each responsible for specific counterparty templates.
    - The role of the template coordinator will include:
      - Ensuring the lock-in template is delivered to their counterparty and the appropriate number of items are highlighted as priority.
      - Ensuring that the priority items on any received template are investigated by the appropriate individuals in time for the lock-in conference call.
      - Ensuring that the appropriate individuals attend the lock-in conference call so that at least all priority items raised by their counterparty can be properly discussed.
      - Ensuring that any follow-up questions raised during a lock-in are answered within 5 business days.
  - Exchange of Information
    - At least 48 hrs prior to the agreed lock-in date, each participating firm should send their lock-in counterparty an updated template, giving them the opportunity to investigate items prior to the lock-in conference call.
    - A minimum of 25 priority items should be highlighted on each template. This is to ensure the investigating firm can identify those items that the sending firm deems most important.
  - Execution
    - Lock-ins should be handled via conference call so the staff of each participating firm can have on-line access to their own systems and trade/settlement data.
    - Template coordinators should act as moderators to ensure that proper progress is made during the call.
    - Template coordinators must ensure that all necessary settlement and middle office staff are on the call to ensure the highest possible resolution rate.



International Swaps and Derivatives Association, Inc.

## Appendix 2 – Markit Metrics

### MARKIT – Settlements Metrics

Participant Submission: 10 business days after month end

Submit data to: [markitmetrics@markit.com](mailto:markitmetrics@markit.com)

Markit Reporting Distribution: Limited to submitting organizations for the products they reported.

Reporting Criteria: All numbers are global/All currencies

EXTERNAL Settlement Breaks only

Internal activity, which is to be excluded from reporting, can be defined as Inter or Intra entity activity within the same Firm

Participants should be submitting for all Asset Classes across all metric requirements. Where this cannot currently be actioned, timelines should be made known as to when complete submission of all metrics to Markit will be completed.

Settlements via CLS should be included in Settlement figures.

All aging should be based on Calendar Days

Month End Reporting should include Statement and Ledger entries for the last business day of the month (after initial reconciliation)

Credit Quarterly gross settlement volume should NOT be changed in non quarterly months.

Definitions: Credit Quarterly – Settlement Breaks related ONLY to credit settlement on 3/20, 6/20, 9/20 and 12/20.

Credit Non-Quarterly - all Settlement Breaks resulting from settlements on all days EXCEPT for 3/20, 6/20, 9/20 and 12/20.  
(includes ABS - includes Single name; index trades and tranche trades)

Rates - all Interest Rate Derivatives: Swaps, Options and Exotic.

Equity - all Equity Derivatives.

Unallocated - funds that have been received across all derivatives

products above, that are as yet unapplied.

**Nostro/Settlement  
Breaks Outstanding:**

Refers to failure to release payment or nostro outstanding that is facing an external entity to the participant.  
Suspense breaks and Unexecuted Settlements are to be INCLUDED within the Outstanding number where facing an external entity to the participant.

Post Value Date amendments age from the date of the amendment and will not be backdated to the original value date.

Settlement breaks resulting from pre agreed bilateral nets should count as one break

No consolidation or post value netting of Settlement break across value dates including multiple quarterly rolls

A mismatch of cashflow between the paying and receiving banks, which occurs when the expected amount of cash settlement differs from the actual amount.

Total Number of Outstanding Nostros should be submitted.

1 break - if a Ledger is matched/linked with a Statement – 1 break is reported under the appropriate asset class.  
2 breaks – Unmatched/unlinked Ledger and Statement – Ledger break will be reported under appropriate asset class and Statement break will be reported under Unallocated  
Statement and Ledger entries for the last business day of the month (after initial reconciliation) should be INCLUDED

1 break = 1 trade per valuation day (unless netting has been agreed in the confirmation)”  
Nostro Breaks should be aged by Value Date

TIW - All breaks regardless of reason are counted as breaks and are to be included in the figures

Netted trades should be counted as 1 break  
Example: If 10 trades were netted for settlement with a counterparty, of them 8 trades settled but 2 trades broke, this would be counted as 1 break for reporting