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## **ISDA and KWM Publish Practical Framework for Constructing Smart Derivatives Contracts**

**NEW YORK, October 3, 2018** – The International Swaps and Derivatives Association, Inc. (ISDA) and law firm King & Wood Mallesons (KWM) have published a new whitepaper that sets out the steps for developing smart derivatives contracts, part of ISDA’s broader work to drive further standardization in derivatives markets and facilitate automation.

Smart contracts have the potential to significantly increase efficiency in the derivatives market, but a number of issues need to be considered, including determining which contractual terms are suitable for automation. The paper – [\*Smart Derivatives Contracts: From Concept to Construction\*](#) – sets out a framework for approaching these questions, and highlights areas where additional collaborative work is required.

As a first step, the contractual clauses that are appropriate for automation should be identified, based on feasibility and the resulting operational efficiencies. The paper notes that certain clauses that stipulate a specific action at a specific time – for instance, payments – may be suitable for automation. Others, like certain types of events of default, which involve numerous interdependent variables and may require human intervention, may not.

Another important criterion is the ability for lawyers to validate that the legal effect of any coded or automated provision within a contract is certain. It is therefore imperative that contractual terms are translated into a standardized form that can be clearly understood by both lawyers and programmers.

The paper also notes that the [ISDA Common Domain Model \(CDM\)](#) could play an important role in ensuring that a shared, standardized representation of events and actions that occur through the derivatives lifecycle is applied across the industry.

“Smart contracts could help drive substantial efficiencies in derivatives markets, but standardization is an important pre-requisite. ISDA is exploring opportunities for further standardization across its suite of existing documentations, including the schedule to the ISDA Master Agreement and the 2006 Definitions. Alongside our work on the ISDA CDM, these efforts will form the foundation upon which new technologies like smart contracts can be developed and adopted for use in derivatives markets,” said Katherine Tew Darras, ISDA’s General Counsel.

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“A combination of technological, commercial, regulatory and legal standards are all important to the real-world effectiveness of smart derivatives contracts. A holistic regulatory and legal approach, which looks through both a technology and commercial lens, will be fundamental. ISDA’s work, including its CDM, helps show the way market participants can take smart contracts forward in a safe, efficient derivatives market,” said Scott Farrell, Partner at KWM.

The paper sets out five steps for constructing a smart derivatives contract. These include:

- Select parts of a derivatives contract for which automation would be effective and efficient.
- Change the expression of the legal terms of a derivatives contract into a more formalized form.
- Break the formalized expression into component parts for representation as functions.
- Combine the functions into templates for use with particular derivatives products.
- Validate the templates as having the same legal effect as legal terms of derivatives contracts.

An ISDA smart contracts/DLT legal working group is focusing on the legal, regulatory and governance issues related to smart contracts and distributed ledger technology, while an ISDA legal technology working group has been established to explore and discuss opportunities for further standardization of ISDA documentation. A separate ISDA CDM design group is working on further developing the ISDA CDM and identifying opportunities for proofs of concept.

The paper is [available on the ISDA website](#).

**For Press Queries, Please Contact:**

Nick Sawyer, ISDA London, +44 203 808 9740, [nsawyer@isda.org](mailto:nsawyer@isda.org)  
Lauren Dobbs, ISDA New York, +1 212 901 6019, [ldobbs@isda.org](mailto:ldobbs@isda.org)  
Amanda Leung, ISDA Hong Kong, +852 2200 5911, [aleung@isda.org](mailto:aleung@isda.org)

**About ISDA**

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 900 member institutions from 68 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association’s website: [www.isda.org](http://www.isda.org). Follow us on Twitter @ISDA.