Frequently Asked Questions
2014 Credit Derivatives Definitions & Standard Reference Obligations:
September 22, 2014 Go-Live

ISDA continues to work with its members to finalize the industry implementation plan for supporting the new 2014 Credit Derivatives Definitions ("2014 Definitions" or "new Definitions"), including the Standard Reference Obligation ("SRO") initiative. This Frequently Asked Questions ("FAQ") document explains the derivatives industry's standards in regard to operational processing for certain credit derivative transactions as of September 22, 2014.

General Questions

1. What are the 2014 Definitions?

The 2014 Definitions are an update to the 2003 ISDA Credit Derivatives Definitions and relevant supplements (the "2003 Definitions"), which currently form the basis of the documentation for most CDS transactions. The 2014 Definitions are a complete overhaul of the 2003 Definitions. Many completely new provisions have been added, and existing provisions have been updated and amended. The 2014 Definitions therefore represent a new standard for CDS contracts.

2. What is the implementation schedule?

Trading on the 2014 Definitions is scheduled to begin on September 22, 2014. The following key steps have occurred or are anticipated leading up to that date:

- ISDA published the 2014 Credit Derivatives Definitions (February 2014)
- ISDA will publish a Protocol allowing firms to amend legacy transactions, other than contracts on certain excluded Reference Entities and products, from the 2003 to the 2014 Definitions, effective from September 22, 2014. *(See further detail on the Protocol below)*
- ISDA will also publish certain updated CDS contract documents (see question below) and various ancillary documents (e.g., revised Determinations Committee Rules, Standard Reference Obligation rules)
- The adherence process for the Protocol will run from its publication until a pre-agreed point before September 22 (to allow firms to reconcile their populations of adhered trades).
- Potential Standard Reference Obligations for key European financial entities will be identified

On September 22, the following changes will go into effect:

- Trading commences on the 2014 Definitions for corporate, sovereign and financial entities, and new series of indices containing those entities
- Trading commences on the new transaction types for financial entities, where applicable
- The Protocol will go into effect
- Entities will begin trading on Standard Reference Obligations (where a Standard Reference Obligation has been published)

3. Are there other changes taking place to CDS contract documentation?

Yes. The following documents will be published by ISDA or Markit by September 22:

- Revised Credit Derivatives Physical Settlement Matrix and Confirmation – ISDA
- Revised iTraxx and CDX Standard Terms Supplements and Confirmations – Markit
- Revised ISDA Disclosure Annex for Credit Derivative Transactions – ISDA
- 2014 CoCo Supplement to the 2014 ISDA Credit Derivatives Definitions – ISDA

ISDA **will not be** publishing Master Confirmation Agreements ("MCAs") which reference the 2014 Definitions.

4. What are some of the important changes under the 2014 Definitions?

The 2014 Definitions are a new standard for CDS transactions, with changes throughout. These FAQs do not attempt to summarize the changes, but identify some of the key areas of change as detailed below.

The 2014 ISDA Credit Derivatives Definitions introduce several new terms, including:

- Bail-in/financial terms for credit default swap (CDS) contracts on certain financial reference entities: incorporates a new credit event triggered by a government-initiated bail-in and a provision for delivery of the proceeds of bailed-in debt or a restructured reference obligation, and more delineation between senior and subordinated CDS.

- Sovereign CDS asset package delivery for CDS contracts on sovereign reference entities: introduces the ability to settle a credit event by delivery of assets into which sovereign debt is converted.

- Standard reference obligation: allows for the adoption of a standardized reference obligation across all market-standard CDS contracts on the same reference entity and seniority level.

- In addition to these new terms, the 2014 ISDA Credit Derivatives Definitions contain several amendments to standard credit derivatives trading terms, including: upgrading provisions dealing with transfers of debt to successor reference entities; expanding the scope of guarantees that can be hedged with CDS; rationalizing the treatment of contingent debt and guarantee obligations; addressing currency redenomination issues; and adjustments to the restructuring settlement mechanism.

5. How will the Protocol apply these changes to existing transactions?

The Protocol will enable market participants to apply the 2014 Definitions to certain existing transactions, thereby eliminating distinctions between those transactions and new transactions entered into on the 2014 Definitions. Market participants, by adhering to the Protocol, agree to amend existing credit derivative transactions within the scope of the Protocol with all other adhering parties to incorporate the 2014 Definitions into the documentation for their transactions in place of the 2003 Definitions.

6. Which of these changes are only applying to new transactions starting September 22?

The changes in the Protocol will NOT apply to transactions on certain Reference Entities listed in the Protocol by name. These Reference Entities are either sovereign entities, certain financial entities or corporate entities. As a result, the 2014 Definitions can only apply to new transactions on those Reference Entities from September 22 onwards. The new financial Transaction Types will only apply to new transactions from September 22.

7. Which legacy transactions will be amended by the Protocol to apply the 2014 definitions?

The Protocol will cover a broad range of types of credit derivative transactions that are documented using the 2003 Definitions as amended by one of the Auction Settlement supplements published in 2009.

The types of transactions covered by the Protocol are:

- Covered Index Transactions (including CDX and iTraxx Tranched and Untranched)
- Covered Swaption Transactions (single name and portfolio)
- Covered Non-Swaption Transactions (e.g. Single name, Fixed Recovery, Recovery Lock, Nth to default, Bespoke Portfolio Transactions)

Certain types of credit derivative transactions are excluded from the scope of the Protocol, including:

- Loan Only transactions
- U.S. Municipal type transactions
- Credit derivative transactions on asset backed securities

These types of transaction will continue to trade on the basis of their current documentation, i.e., the 2014 Definitions will not apply to them.

8.   How will these changes apply to index and bespoke basket CDS transactions?

The Protocol will apply the changes to individual Reference Entity components of index and bespoke basket CDS transactions in the same way as for single name transactions. This means that transactions that have some Reference Entities that are covered by the Protocol and some Reference Entities that are excluded from the Protocol will be bifurcated, with part of the trade moving to the 2014 Definitions and part remaining on the 2003 Definitions.

9.   What changes are happening for financial Reference Entities?

New trades on financial Reference Entities in certain regions can be traded from September 22 using the new financial terms, which include a new Governmental Intervention Credit Event, triggered by a government-initiated bail-in, provisions allowing delivery of the proceeds of bailed-in debt or a restructured reference obligation, and more delineation between senior and subordinated CDS. The financial provisions in the 2014 Definitions do not allow contingent convertible ("CoCo") bonds issued by financial entities to be delivered, but ISDA is publishing a Supplement (the 2014 CoCo Supplement to the 2014 ISDA Credit Derivatives Definitions or "CoCo Supplement") that will allow CoCo bonds to be delivered if the CoCo Supplement is incorporated into the Confirmation.

10. How will the changes to financial terms such as bail-in and other changes be identified on a contractual basis?

To allow market participants the ability to apply the new financial terms to relevant transactions, ISDA will publish a revised version of the Credit Derivatives Physical Settlement Matrix ("the Matrix") including new Financial Transaction Types that specify Governmental Intervention as a Credit Event and the financial Entity Terms under the 2014 Definitions as applicable. In addition, a Transaction Type will be added to allow parties to trade European financial entities with the CoCo Supplement applicable. For the September 22 rollout, the following new Transaction Types will be added to the Matrix:

- Asia Financial Corporate
- Australia Financial Corporate

- Emerging European Financial Corporate
- Emerging European Financial Corporate LPN
- European Financial Corporate
- European CoCo Financial Corporate
- Latin American Financial Corporate BL
- New Zealand Financial Corporate
- Singapore Financial Corporate
- Japan Financial Corporate

11. Will there be an instance where you have a name trading before September 22 that references 2003 Definitions, then after September 22 will be able to trade on either 2003 or 2014 Definitions?

Yes. While it is expected that market convention will be that trades post-September 22 will generally be on 2014 terms, for Reference Entities that are NOT covered by the Protocol, there may be a mix of trading practice as parties trade on 2014 terms for new risk, but on 2003 terms to close out or hedge legacy positions.

12. Will the Protocol specifically identify Reference Entities that are covered?

No. The Protocol will cover certain types of credit derivative transactions regardless of the identity of the Reference Entity, and will then exclude certain specified Reference Entities that would otherwise be covered.

13. What is a SRO?

One of the initiatives contained in the 2014 Definitions is 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 SRO published from time to time will then be the Reference Obligation for all trades on that Reference Entity and Seniority Level for which SRO is applicable, regardless of when the trade was executed. The parties can specify SRO as applicable or not applicable in the Confirmation (if the Confirmation is silent, the 2014 Definitions default to SRO applicable).

14. What are the benefits to making this change?

Standardization of the Reference Obligation removes the need for parties to match the Reference Obligation when using matching or affirmation platforms, reducing the risk of trade breaks. It also removes potential basis risk between transactions that have the same Reference Entity but different Reference Obligations, and allows for consistent treatment of cleared and uncleared transactions.

15. How will the SRO be applied to transactions?

The SRO provisions in the 2014 Definitions apply by default to transactions governed by the 2014 Definitions. The Protocol will apply the 2014 Definitions, including the SRO provisions, to legacy transactions, with some minor amendments to preserve the economics of legacy transactions.

Operational Questions

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16. Will all the new Matrix transaction types be confirmable electronically?

Yes. All the Matrix transaction types referenced in Question #10 above will be supported on DSMatch and confirmed electronically.

17. Will the Definitions flag be a confirmable field?

Yes. The 2014 Definitions do NOT apply to transactions automatically from September 22. As such, they must be incorporated into the confirmation or other trading documents.

A new data attribute will be added to the MarkitSERV confirmation templates:

- Contractual Definitions: this will allow firms to differentiate between transactions on the 2003 and 2014 Definitions within the legal confirmation.
- *ISDA2003Credit, ISDA2014Credit,* and *ISDA2006:* will become a required matching field on all products from September 22.

18. Will there be new master document transaction types for the new financial terms in both DSMatch and other relevant platforms?

Yes. To allow participants the ability to apply these new terms to the relevant transactions, ISDA will create new Transaction Types in the Matrix based on the current Corporate and Standard Corporate types. MarkitSERV and other platforms will support the new Matrix Transaction Types, for example European Financial Corporate or Standard European Financial Corporate, which will allow firms to legally confirm trades under the new terms.

19. Will there be the ability to novate the financial trades and trades marked as 2014 Definitions trades?

Yes, the MarkitSERV and ICELink Novation Consent Platforms will support assignments on the new Transaction Types and transactions with the new Definitions flag.

20. Will novations of 2003 Definitions transactions be affected?

No. Transactions may not be novated from 2003 Definitions to 2014 Definitions during the course of the novation. Parties may wish to make that amendment subsequent to the completion of novation.

21. How will DTCC handle Credit Events?

DTCC's TIW will be able to process Credit Events as it is currently completed today, even if an event is a Credit Event for both 2014 Definitions trades and 2003 Definitions trades. For example, if a bail-in of a financial Reference Entity were to qualify as a Restructuring under the 2003 Definitions and a Governmental Intervention under the 2014 Definitions, DTCC would create and run two independent / parallel events.

- Credit Event for the trades confirm under the 2014 Definitions
- Restructuring Event for the trade confirmed under the 2003 Definitions

22. Will these changes impact CCPs?

CCPs are expected to reflect the Protocol changes and the 2014 Definitions in their clearing rules. For details, please contact the relevant CCP.

23. Will the changes require reporting amendments?

No. There will NOT be a requirement for new taxonomies or other reporting obligations. Firms will map the new transaction types to their corresponding existing taxonomies. For example: StandardEuropeanFinancialCorporate will have the same Taxonomy value as StandardEuropeanCorporate transactions. In addition, firms will not be required to submit the contractual definitions field to swap data repositories. There will be new Master Document Transaction Types that will firms have to submit based on their adherence to the Protocol and the underlying Reference Entity.

24. Will SEFs and IDBs have to make changes?

Yes. It is anticipated that SEFs / Brokers will make the following changes to:

- Provide for designation of transactions referencing 2003 or 2014 definitions
- Support trading on the new Financial Transaction types based on selection of the Transaction Type by participants on the platform.
- If the platform lists out applicable Credit Events for a trade, add Governmental Intervention as a Credit Event on the new Financial Transaction Types.
- Allow firms to trade specifying the SRO where applicable.

25. What is a 'doc clause'?

Over the past several years the industry has developed short hand codes to describe credit derivative transactions. These codes have primarily centered on the Credit Event of Restructuring. These codes or "doc clauses" are used for a variety of purposes, but mainly serve to assist the industry identify transactions from a pricing perspective. Markit uses the doc clauses to assist several clearing houses, their members, and member customers to submit settlement prices on a daily basis. Various vendor composite pricing files are published to industry participants which allows for consistency of pricing for intraday and end of day valuations.

The current doc clauses used in the industry are as follows:

Doc Clause		Restructuring Type
XR	=	No Restructuring
CR	=	Old /Full Restructuring
MR	=	Modified Restructuring
MM	=	Modified Modified Restructuring

26. What are the anticipated changes to the current 'doc clauses'?

As the industry begins trading on the 2014 Definitions there will be a need to either amend the existing doc clauses or add new identifiers to ensure all transactions are easily identifiable so that differences between contracts that may have a pricing impact can be captured. The Credit Steering Committee has recommended introducing a new doc clause for any transaction that is governed by the 2014 Definitions. Transactions governed by 2003 Definitions will remain on their above existing respective four doc clauses.

The new 2014 doc clauses are as follows:

Doc Clause   Restructuring Type

XR14   =   No Restructuring

CR14   =   Old /Full Restructuring

MR14   =   Modified Restructuring

MM14 =   Modified Modified Restructuring

Example of Doc Clauses after September 22:

Sector	Example Transaction Template Type	Protocol Adhered	ISDA Definitions	Restructuring Type	Current Doc Clause	New Doc Clause
European Financial	StandardEuropeanCorporate	n/a	2003	Modified Modified Restructuring	MM	MM
European Financial	StandardEuropeanFinancialCorporate	n/a	2014	Modified Modified Restructuring	MM	MM14
European Corporate (non Fin/Sov)	StandardEuropeanCorporate	No	2003	Modified Modified Restructuring	MM	MM
European Corporate (non Fin/Sov)	StandardEuropeanCorporate	Yes	2014	Modified Modified Restructuring	MM	MM14
North American Corporate (non Fin/Sov)	StandardNorthAmericanCorporate	No	2003	No Restructuring	XR	XR
North American Corporate (non Fin/Sov)	StandardNorthAmericanCorporate	Yes	2014	No Restructuring	XR	XR14
North American Corporate (non Fin/Sov)	StandardNorthAmericanCorporate	No	2003	Modified Restructuring	MR	MR
North American Corporate (non Fin/Sov)	StandardNorthAmericanCorporate	Yes	2014	Modified Restructuring	MR	MR14
Latin American Sovereign	StandardLatinAmericaSovereign	n/a	2003	Old/Full Restructuring	CR	CR
Latin American Sovereign	StandardLatinAmericaSovereign	n/a	2014	Old/Full Restructuring	CR	CR14
Western European Sovereign	StandardWesternEuropeanSovereign	n/a	2003	Old/Full Restructuring	CR	CR
Western European Sovereign	StandardWesternEuropeanSovereign	n/a	2014	Old/Full Restructuring	CR	CR14

27. Will there be Index Reversioning?

Standard indices are not expected to reversioned for the launch of the 2014 Definitions. All trades of a specific index series will be treated the same way under the Protocol. New Standard Term Supplements ("STS") for index trades will be published to cover both new and legacy series, and indicate which Definitions apply to which index constituents.

28. What Changes will be taking place in the Trade Information Warehouse (TIW)?

- Clearing Eligibility Report: the Contractual Definitions field will be added to the end of the report
- Full Position Reconciliation File: the Contractual Definitions field will be added to the end of the report
- DTCC Pair File: no changes
- Partial Triggering Report: no changes
- Full Triggering Report: no changes
- Successor Event Activity Report: no changes
- Data migration:

- o Phase I will take place by industrializing the contracts to show the Contractual Definitions Date (either *ISDA2003Credit* or *ISDA2006*)
- o Phase II will amend the trade to show Protocol trades as *ISDA2014Credit*

29. What will happen to Indices post September 22?

All future indices are expected to be on 2014 Definitions for all underlying entities from September 22 onwards. Constituents of legacy series will move to the 2014 Definitions under the Protocol, except for Reference Entities excluded from the Protocol, which will remain on the 2003 Definitions.

30. What are the key elements of SRO to be implemented?

- Specifying "Standard Reference Obligation" as applicable or not applicable in the Confirmation. This specification determines whether a transaction on the 2014 definitions will be subject to the SRO or not.
- Specifying the Seniority Level in the Confirmation
- Determining which Reference Obligation will be published as the SRO for a Reference Entity/Seniority Level
- Replacing SROs as they mature
- Applying SROs to legacy transactions

31. How will the key elements of SRO be implemented?

- Industry implementation will leverage the existing Reference Obligation field:
  - o "Generic" Reference Obligation identifier used to indicate both applicability of Standard Reference Obligation and the Seniority Level
    - ▪ There will be two new reference identifiers for SRO:
      - ‑ XSSNRREFOBL0 for senior transactions
      - ‑ XSSUBREFOBL0 for subordinated transactions
- Confirmation and other platform operating procedures will translate the generic reference data into the relevant legal text which signifies SRO applicability on a transaction.
- Markit will maintain and publish the SRO List with each published SRO for the relevant Reference Entity and Seniority Level:
  - o SROs will be selected according to a set of pre-defined rules
  - o ISDA circulated a draft proposal for these rules on April 4
    - ▪ Under the draft proposal, SROs will be selected according to the following criteria:
      - ‑ Meet specified maturity, size and liquidity thresholds
      - ‑ Have the requisite seniority level
      - ‑ Are either deliverable, or not deliverable for the same reasons as an approved benchmark bond
    - ▪ If there are multiple potential SROs, the selection is made to minimize replacement frequency
    - ▪ The SRO rules process will also address replacement of maturing SROs

32. When is the expected UAT period?

The UAT is scheduled to begin in July and last through September 19. Additional details are available in the plan. The plan will be updated over time as additional information is available.

For questions, please contact: cdsquestions@isda.org