

Frequently Asked Questions on Credit Derivative Initiatives

ISDA continues to work together with their respective constituents to develop an industry implementation plan for a number of Credit Derivative initiatives. These Frequently Asked Questions (FAQ) explain the derivatives industry's standards in regard to operational processing for credit derivative transactions.

Credit Derivative Initiatives

The derivatives industry has agreed to several standardized CDS contracts which aim to further standardize a number of variables.

The North American and European standardized products have been trading as of April and June 2009, respectively.

The Standard Australia and Standard New Zealand Corporate and Sovereign names and Emerging Market transaction types which include Standard Emerging Market names in Central and Eastern Europe, the Middle East, Africa and Latin America have been trading since September 2009.

In addition, the Emerging Market transactions have moved from semi annual to quarterly payments and full first coupons at the same time. These changes, with a goal to further standardization, follow the move from monthly to quarterly roll of maturity dates, which became effective on June 22, 2009.

Starting December 21, 2009, the Standard Japan Corporate and Sovereign names have started trading on either 25, 100 or 500 bps spread, while the Standard Asia and Singapore Corporate and Sovereign names have started trading on either 100 or 500 bps spread.

Similar to the Standard North American Corporate product, these include a 60 day look back rolling Effective Date, standardized accruals, and auction hardwiring.

The current list of standardized product types include: Standard North American Corporate, Standard European Corporate, Standard Subordinated European Insurance Corporate, Standard Western European Sovereign, Standard Emerging European Corporate LPN, Standard Emerging European Corporate, Standard Latin America Corporate B, Standard Latin America Corporate BL, Standard Latin America Sovereign, Standard Emerging European & Middle Eastern Sovereign, Standard Australia Corporate, Standard New Zealand Corporate, Standard Australia Sovereign, Standard New Zealand Sovereign, Standard Japan Corporate, Standard Japan Sovereign, Standard

Capitalised terms have the meaning given to them in the relevant ISDA definitional booklet

The precise documentation of each Transaction remains the responsibility of the parties concerned. ISDA assumes no responsibility for any use to which this Frequently Asked Questions may be put.

Each party following the recommendations contained in this Frequently Asked Questions should satisfy itself that those recommendations are appropriate to reflect the commercial intentions of the parties.

Asia Corporate, Standard Asia Sovereign, Standard Singapore Corporate and Standard Singapore Sovereign, Standard Sukuk Corporate, Standard Sukuk Sovereign, Standard U.S. Municipal Full Faith and Credit, Standard U.S. Municipal General Fund and Standard U.S. Municipal Revenue transactions

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General Questions

1. What transaction types are covered?

These initiatives cover Standard North American Corporate, Standard European Corporate, Standard Subordinated European Insurance Corporate, Standard Western European Sovereign, Standard Emerging European Corporate LPN, Standard Emerging European Corporate, Standard Latin America Corporate B, Standard Latin America Corporate BL, Standard Latin America Sovereign, Standard Emerging European & Middle Eastern Sovereign, Standard Australia Corporate, Standard New Zealand Corporate, Standard Australia Sovereign, Standard New Zealand Sovereign Standard Japan Corporate, Standard Japan Sovereign, Standard Asia Corporate, Standard Asia Sovereign, Standard Singapore Corporate and Standard Singapore Sovereign, Standard Sukuk Corporate, Standard Sukuk Sovereign, Standard U.S. Municipal Full Faith and Credit, Standard U.S. Municipal General Fund and Standard U.S. Municipal Revenue transactions.

2. How do these initiatives affect the Scheduled Termination Date?

The Scheduled Termination Date for standard transactions must always match a quarterly roll date. The quarterly roll dates are March 20, June 20, September 20 and December 20. For clarification, the Scheduled Termination Date is still an unadjusted date. Accrual ends on and includes the unadjusted quarterly roll date even though the final payment is made on the adjusted roll date.

3. Do these initiatives impact Restructuring?

No. All of these transactions keep their relevant Restructuring type with the exception of Standard North American Corporate for which trading without Restructuring is the new standard but can be requested and agreed between the parties at time of trading

4. How are the coupons for these transactions reflected?

Coupons are reflected as a percentage per annum, as per the below, and should be confirmed as the respective relevant coupon.

1% and 5%: North American Corporate, Australian and New Zealand Corporate and Sovereign, Emerging Market, Asia Corporate and Sovereign, Singapore Corporate and Sovereign Transaction types

.25%, 1%, 5%, 10%: European Transaction types. For the purposes of applying standard coupons retroactively to outstanding trades for compression purposes, firms used the additional coupons of 3% and 7.5%. Subsequent to the go-live of the Standard European Transaction types some market participants began quoting these additional coupons.

.25%, 1%, 5%: Japan Corporate and Sovereign Transaction types

5. How do these initiatives affect the Accrual Start date?

Rather than starting on the Effective Date, accrual begins on and includes the last quarterly roll date (March 20, June 20, September 20 or December 20) on or preceding the calendar day after

Trade Date. Similar to Indices, the Accrual Start date is an adjusted date. There are full coupons and no short or long stubs. All settlements are full coupons.

6. For these trades, what value should firms put in the Effective Date field?

It is suggested that firms continue to book and submit Trade Date + 1 as their Effective Dates to DTCC. DTCC ignores this value for accrual purposes.

7. Do these initiatives affect the Settlement Methodology?

No. All of these trades are subject to the Auction Settlement methodology, with Fallback Settlement Method of Physical Settlement. The ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring Supplement to the 2003 Credit Derivatives Definitions applies to these trades, whether confirmed on paper or in DTCC, and are incorporated into the DTCC Operating Procedures as well as the Matrix Confirmation.

Confirmation Questions

8. Can these transaction types still be confirmed electronically?

Yes. MarkitSERV supports these transaction types.

9. What types of confirmations can I use to confirm my transactions?

Matrix: ISDA have published updated versions of the Matrix that have included new Standard Transaction Types as they were adopted by the market. The Current version of the Matrix (Version 19 published on May 29, 2012) includes all of the standard transaction types listed above. This is the preferred means of confirming these transactions.

Master Confirmation Agreement (MCA): samples of the respective Transaction Types that firms submit to MarkitSERV are called:

"ISDA2004StandardCreditSovereignEmergingEuropeanAndMiddleEastern",

"ISDA2004StandardCreditSovereignLatinAmerican",

"ISDA2003StandardCreditAustraliaNewZealand", "ISDA2003StandardCreditJapan",

"ISDA2004StandardCreditSovereignJapan", "ISDA2003StandardCreditAsia",

"ISDA2004StandardCreditSovereignAsia", and "ISDA2003StandardCreditSingapore" for trades confirmed under a MCA. As this is defined in the MarkitSERV Operating Procedures, no changes are necessary to executed MCAs or the MarkitSERV Standard MCA. You continue to confirm these with the MCA date you currently use to confirm these transaction types.

Paper Confirmations: if firms are unable to confirm in MarkitSERV, the trade will need to be confirmed on either a Matrix Confirmation or long form confirmation.

11. When MarkitSERV rejects trades due to incorrect information, will those trades make it into the system and be available for modification?

Yes. Those trades will go into a rejected status.

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