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Section 719(b) Study

- It is feasible to require the derivatives industry to adopt standardized computer-readable algorithmic descriptions which may be used to describe complex and standardized financial derivatives

- The algorithmic descriptions will facilitate
  - computerized analysis of individual derivative contracts;
  - Calculation of net exposures to complex derivatives

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But….

Keys to Success

Economic Data	Legal Agreement Data	Legal Opinion Data

Transaction
   Collateral
	Master Agreement
	   Collateral Agreement
	   Amendment Agreements
		Netting Opinions
		   Collateral Opinions

✔	✘	✘

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Economic Data

Goldman / ISDA / SIFMA Comments

- docGenix endorses Comments of ISDA, SIFMA and Goldman Sachs on Section 719(b) study:

  - "Net Exposure" calculation methodology

  - FpML's capacity to represent trade data

Legal Agreement Data

ISDA Documentation Architecture

Portfolio Level Documents

- Master Agreements
  - 1987 / 1992 / 2002
  - Legal / Credit terms
- Credit Support Agreement
  - Security Interest v Title Transfer
  - Collateral Terms
- Amendments
  - Substantive Changes
  - Minor Changes

Transaction Level Documents

- Confirmations
  - Economic Terms
    - Long Form
    - Short Form – Definitions
    - Master Confirmations

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Single Agreement

- Master Agreement / Credit Support Agreement and Confirmations constitute a *single agreement*.

"The Master, after the Bible and the Koran, is probably the most scrutinised document out there"

- *Financial Times Sep 30, 2009*

Counterparty Credit Risk

Parties

- Party
- Credit Support Provider
- Specified Entities

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Events

- Events of Default
  - Failure to Pay
  - Breach of Agreement
  - Credit Support Default
  - Misrepresentation
  - Default Under Specified Transaction
  - Cross-Default
  - Bankruptcy
  - Merger Without Assumption
  - Bespoke Events of Default

- Termination Events
  - Illegality
  - Force Majeure (2002)
  - Tax Event
  - Tax Event Upon Merger
  - Credit Event Upon Merger
  - Bespoke Additional Termination Events

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Event Consequences...

- Close-out Netting
  - Events of Default
  - Termination Events
  - Impact on:
    - Transactions
    - Affected Transactions

  - Core Netting Provisions in the Master Agreement that are at the heart of close-out netting

- Collateral Agreements
  - Collateral Taker can use collateral to reduce its counterparty exposure even further.

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Credit Support Agreements

- Nature of Agreement
- Nature of Collateral
- Thresholds
- Rehypothication
- Excluded Transactions

Legal Opinions

Legal Opinions

- Execution of Master Agreement / Credit Support Agreement no guarantee of enforceability

- Independent confirmation of enforceability is required in the form of Legal Opinions

- Opinions were originally commissioned by Market Participants individually

- Annual ISDA Legal Opinions
  - Netting (55 Jurisdictions)
    - www.netalytics.org
  - Collateral (45 Jurisdictions)
    - www.csanalytics.org
- Bespoke Legal Opinions

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Identifiers

Identifier Expansion

- Unique Swap Identifier
  - Linking swaps together
- Unique Counterparty Identifier
  - Map to ISDA Legal Opinion counterparty types
- Unique Product Identifier
  - Map to ISDA Legal Opinion transaction types
- Additional Identifiers required for:
  - Master Agreements
    - Sometimes there are more than 1 Master Agreement between two counterparties
  - Credit Support Agreements (Security Interest vs. Title Transfer)
  - Amendments
- Corporation Affiliations Database
  - Ensure affiliations data is hierarchical

Lingua Franca

Current Data Capture Processes

- OTC Participants are capturing data from their legal agreements
  - Bespoke fashion
  - Different levels of granularity
- As such it is of limited use from a regulatory and risk management point of view

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Extensible Markup Language

XML

- Created to describe legal agreements
- Flexible
  – Transformation - html, pdf, csv
- Schema "validation"
- Platform independent
- Widely used (FpML)

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Conclusion

Economic Data 　Transaction 　Collateral	**Legal Agreement Data** 　Master Agreement 　Collateral Agreement	**Legal Opinion Data** 　Netting Opinions 　Collateral Opinions
✔	✔	✔

Questions & Answers

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