

# FpML® Information

## 1. What is FpML®?

### The mission behind FpML:

To streamline the process supporting trading activities in the financial derivatives domain through the creation, maintenance and promotion of an e-business language for describing these products and associated business interactions based on industry standards.

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|  <p>Financial products Markup Language<br/>FpML Logo</p> | <p>FpML® (Financial products Markup Language) is the business information exchange standard for electronic dealing and processing of <a href="http://www.isda.org/educat/faqs.html">financial derivatives instruments</a> (<a href="http://www.isda.org/educat/faqs.html">http://www.isda.org/educat/faqs.html</a>) . It establishes a new protocol for sharing information on, and dealing in swaps, derivatives and structured products. It is based on <a href="http://www.w3.org/XML/">XML (Extensible Markup Language)</a> (<a href="http://www.w3.org/XML/">http://www.w3.org/XML/</a>) , the standard meta-language for describing data shared between applications. All <a href="http://www.isda.org/educat/faqs.html#2">categories of over-the-counter (OTC) derivatives</a> (<a href="http://www.isda.org/educat/faqs.html#2">http://www.isda.org/educat/faqs.html#2</a>) will eventually be incorporated into the standard.</p> <p>The standard, which is <a href="http://www.isda.org/educat/faqs.html#2">freely licensed</a> (<a href="http://www.isda.org/educat/faqs.html#2">../license/license.html</a>) , is intended to automate the flow of information across the entire derivatives partner and client network, independent of the underlying software or hardware infrastructure supporting the activities related to these transactions. FpML is of value when the direct communication of derivative trade descriptions and environment information between two firms is desired. Ultimately, it will allow for the electronic integration of a range of services, from Internet-based electronic dealing and confirmations to the risk analysis of client portfolios.</p> |
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FpML has been designed to be modular, easy-to-use and in particular intelligible to

practitioners in the financial industry. It is expected to become the standard for the derivatives industry in the rapidly growing field of electronic commerce. Some important benefits in using FpML include:

- Financial instruments are specified in a format that is readable to both computers and humans. This enables system-to-system communication within business-to-business e-commerce applications.
- Financial information can be readily exchanged between diverse sets of applications, as applications and technology vendors provide both turn-key applications and core technology that support FpML-based information exchange.
- Processing costs will be reduced as a result of lower communication costs between applications and lower system implementation costs.
- The wholesale financial services market can take advantage of interactive technology to reduce operational risks while increasing business opportunities.

## **2. Background: The Need for FpML®**

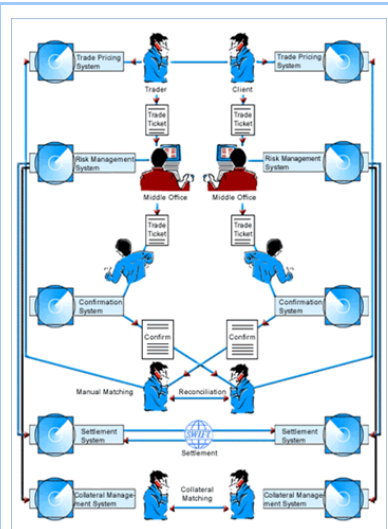
Over-the-counter (OTC) derivative transactions such as swaps have developed rapidly since they were introduced in the early 1980's. These contracts share a number of attributes that make them flexible and effective for solving many complex financial needs for organizations. For example, as they involve only two firms ("counterparties"), these transactions can easily be customized to meet specific customer requirements. As they are over the counter, it is not necessary to get agreement from an exchange or a regulator to change the contract specifications. These characteristics have caused the OTC derivatives market to grow quickly in volume and in product variety.

transactions between counterparties has typically been highly manual

However, the very flexibility and rapid evolution of OTC derivatives has challenged technology. For most of the life of the OTC derivatives industry, technology development has focused on building tools for pricing and risk managing these transactions, functions that are primarily internal to the firms entering these transactions. Because of the wide variety and rapid change in the products that are traded, it has typically been viewed as not cost effective to build standard electronic mechanisms for interchanging details of the transactions between participating firms. The perpetual fear was that any such standardized data interchange mechanism would be doomed to being obsolete, as new product attributes could not be added and agreed to in the data interchange standard as quickly as they could be by trading desks.

There have been several attempts in recent years to resolve this problem, but so far none of them have been successful in attracting a critical mass of market participants. However, with the advent of wide-spread e-commerce provoked by the Internet, and the general availability of generic document languages like XML, technology has now evolved to the point that it is possible to see how it can be used to solve this problem cost-effectively.

For this reason, the communication and confirmation of details of these transactions between counterparties has typically been highly manual, and therefore error-prone and frequently of poor timeliness. Firms typically exchange details via fax, and humans read these faxes to compare them with their own firms' representations of these transactions. Whether for initial confirmation of the trades, or for purposes such as settlement or collateral matching, the lack of an automated mechanism for communicating this information causes significant expense and operational risk, as well as rigidity in business processes.



[FpML Manual Process](http://www.fpml.org/images/fpml-manual-process)

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The above diagram depicts the current manual process utilized for derivatives trading. (click on image to view larger size)

### 3. Vision: Applying FpML®

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| <p>FpML will be used for communicating</p> | <p>FpML will facilitate OTC business communication:</p> <ul style="list-style-type: none"><li>• between companies participating in a transaction</li><li>• within a company seeking to integrate information across systems</li><li>• between a company participating in a transaction and a firm offering a service related to that transaction, e.g. confirmation matching or valuation.</li></ul> <p>FpML can be used for a variety of business processes, including:</p> <ul style="list-style-type: none"><li>• structuring and negotiating the terms of a transaction</li><li>• executing and confirming the transaction</li><li>• communicating settlement details about the transaction</li></ul> |
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