

ISDA FpML™ for the 2021 Interest Rate Definitions
FpML Outreach

June-2021



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Markets



- Background and market context
- 2021 Definition changes affecting FpML users
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- FpML Reference Data
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- Migrating to version 5.12
- Timelines



Background and Market Context

- FpML is closely based on the ISDA 2006 Definitions and supplements
- Since the 2006 Definitions were developed, there have been significant market changes
 - Substantial increase in cleared trading activity
 - Increase in collateralization for bilateral trading activity
 - Changes in cash settlement methods related to the above
 - On-going transition from IBOR-style term rates to overnight, risk-free rates (RFRs)
- These and other changes prompted the development of the 2021 Definitions
- The 2021 Definitions are reorganized and streamlined and take advantage of digital publication technology



2021 ISDA Definitions

2021 Definition changes affecting FpML users

The 2021 Definitions and other recent definitions introduce a number of changes affecting FpML Users

- New list of Floating Rate Options (indexes) with improved fallback procedures
- New cash settlement provisions
- Support for “modular” daily calculated rates
 - E.g. “Compounding with Lookback” and “Compounding with Observation Period Shift”
 - These definitions were introduced as Supplement 75 to the 2006 Definitions in 2021 and are being added to the 2021 Definitions
 - They support customized trading on RFRs
- There are other changes that may enable new capabilities in FpML in the future, eg.
 - More extensive use of matrix definitions
 - Greater ability to default fields based on matrix definitions



What is FpML doing to address the 2021 Definitions?

- Creating a new list of FpML floating rate indexes and associated reference metadata based on the 2021 FRO matrix
- Changing the FpML schema to support
 - New cash settlement provisions
 - Modular daily calculated rates (compounded and averaged)
 - Capturing information about fallback rates and fallback resets
- Creating new examples to support the transition
 - Examples of the new features
 - Additional examples of existing features (such as OIS swaps) that are becoming more widely used as a result of the transition
- Working on outreach activities



ISDA will be enhancing reference data support

- FpML will continue to provide free coding schemes to identify data such as
 - Floating rate indexes
 - Business centers
- FpML/ISDA will provide value-added reference data to members
 - Floating rate index metadata
 - Additional reference data over time based on the ISDA matrices (e.g. settlement defaults)



Deciding whether to adopt a new version of FpML

- Not all users of FpML will need to update immediately
- For cleared swaps, existing FpML may be adequate
- For bilateral (noncleared) swaps, only certain trade types would require an update
- Firms should discuss the needed version with their infrastructure providers



2021 ISDA Definitions

Adopting new versions of FpML – cleared swaps

FpML for cleared swaps

- For many cleared swaps we expect that the existing FpML schema will be adequate
 - Clearing houses will probably continue to accept existing FpML versions for some time and may not support new versions of FpML until they require its functionality
 - After transition day, clearing houses are likely to continue to accept trades under the 2006 Definitions and using 2021 FRO names for some transitional period
 - Some clearing houses may immediately convert the trades to 2021 trades and reply with trade details using the 2021 Definitions and FRO names
 - Other clearing houses may retain the trades as 2006 trades in FpML but will legally or operationally treat them as done under the 2021 Definitions, possibly through changes to their own rule books.
 - Users of cleared swap services should be prepared to receive the new 2021 FRO names from clearinghouses where applicable.
 - Existing 2006 trades may or may not be migrated immediately to 2021 trades depending on the clearinghouse
- There is still some uncertainty about which methods each clearinghouse will use. Speak to your clearing house for more information
- The ISDA 2021 Definitions Implementation Subgroup is a good place to find more information



FpML for non-cleared, bilaterally-confirmed swaps

- Existing FpML 4.x and 5.x versions are likely to continue to be supported by infrastructures for some time
- 4.2 and 4.3 are being enhanced to support the 5.12 features listed above as an aid to transition
- Participants are likely to need to make changes (e.g. to updated 4.2 or 4.3) if they use cash settled trades (swaps with break clauses or swaptions)
- Otherwise they may be able to stick with existing versions of FpML, but using the new 2021 FRO codes
- Speak to your middleware provider or service provider for more information



Will legacy versions of FpML be supported by ISDA?

- Normally older versions of FpML aren't updated to add new features
- Because of the large market transition and as a transition aid, ISDA will provide updated versions of some older FpML versions.
- Versions 4.2, 4.3, and 5.5 will be updated by ISDA to include the new 2021 features.
- ISDA will support platforms such as MarkitWire and DTCC in using these versions, and will support questions from end users about the new features, but not about the specifics of the implementation by the platforms
- ISDA will provide instructions on how to add these features to other versions of FpML
- Users of legacy versions of FpML are encouraged to migrate to version 5.12 because further updates to FpML will not be supported in legacy versions. This legacy version update is a one-time aid to transition to the 2021 Definitions



How do you migrate from legacy FpML versions to 5.12?

- For 5.x, most or all existing confirmation and clearing messages will work unchanged in 5.12
- For 4.x, most IR swap messages will require only the following changes to validate within 5.12:
 - The root element will need to be changed to an FpML 5.0 dataDocument.
 - The partyId element will need to have an attribute added, if not already present, to describe the type of party identifier used.
 - An implementation may also require some changes in how code lists are described, but if so this is implementation-specific. We expect platforms will offer solutions to make this as painless as possible.

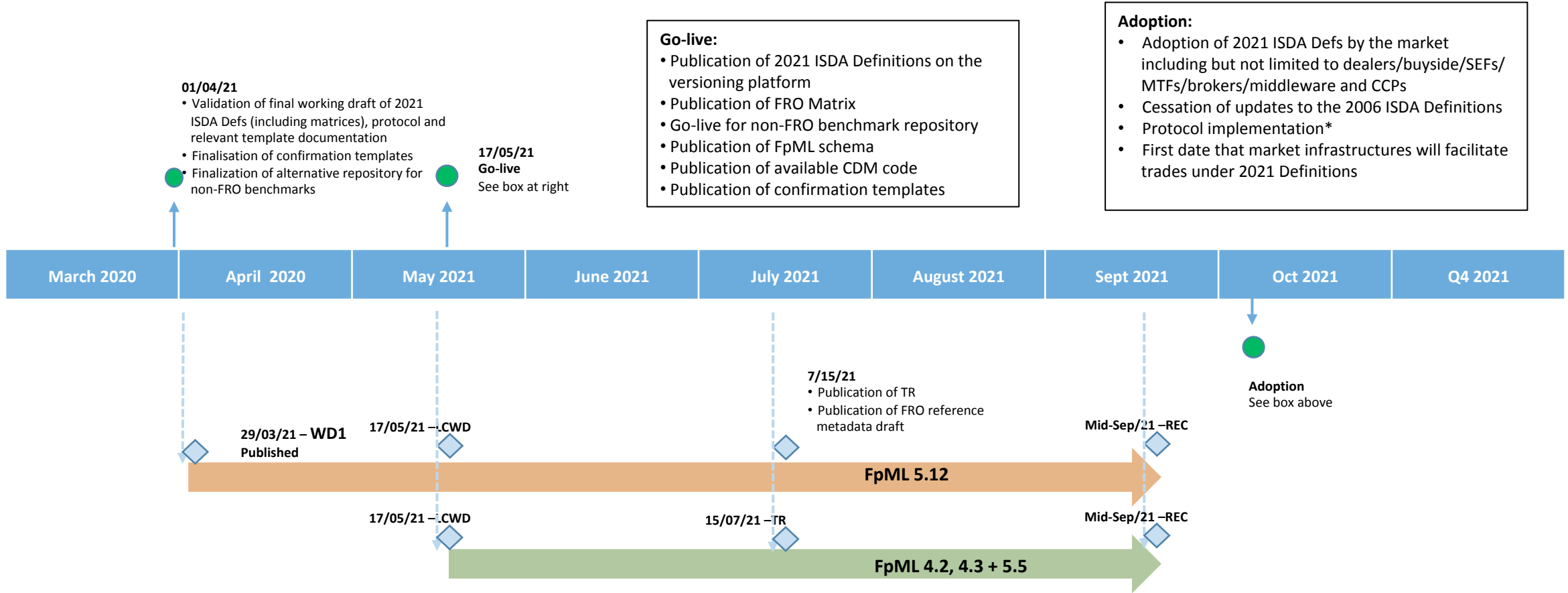


ISDA 2021 Timelines and FpML Timelines

- ISDA has an overall 2021 implementation timeline
 - October 4, 2021 is the first date that infrastructures will facilitate trades under the 2021 Definitions
- FpML has developed a publication timeline linked to that
- FpML implementers will need to develop their own timelines based on the ISDA and FpML timelines
- Following is more information about the ISDA and FpML timelines, and suggestions for implementers on how to work with the ISDA timelines



2021 ISDA Definitions Implementation Plan



FpML Timeline



2021 ISDA Definitions

Detailed FpML Implementation Plan

Month	FpML/ISDA	Implementers
March 2021	<ul style="list-style-type: none">Published FpML 5.12 WD (Mar 29)New cash settlement methods, calculated rates	<ul style="list-style-type: none">Key implementers provided input to ISDA on the LCWD
May 2021	<ul style="list-style-type: none">Published FpML 5.12 LCWD (May 17)Cleaned up cash settlement methods, enhanced calculated rates, fallback ratesWork on reference dataPublish draft coding scheme for new FROsWork on TR (cleanups and examples)	<ul style="list-style-type: none">Begin assessing 5.12 features to determine which will be implemented for October
June 2021	<ul style="list-style-type: none">Develop FpML outreach presentationDo outreach webinarWork on Trial Recommendation (TR)	<ul style="list-style-type: none">Assess how to migrate to new FROs and definitionsDetermine which FpML features will be implemented; report any design issuesBegin preliminary design of new FpML supportReview FRO coding scheme to assess migration
July 2021	<ul style="list-style-type: none">Publish 5.12 TR (new examples, cleanups)Publish FRO metadata	<ul style="list-style-type: none">Begin design and implementation of new FpML supportReview FRO metadata
Aug 2021	<ul style="list-style-type: none">Support membersTrack issuesPossibly develop more examples	<ul style="list-style-type: none">Finish new FpML supportCreate test environments with new FROsReport any issues
Sept 2021	<ul style="list-style-type: none">Publish 5.12 REC (bug fixes)	<ul style="list-style-type: none">Test with counterparties and infrastructuresReport any issuesDeploy new REC scheme prior to go live