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Position on Page 15

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ISITC Debuts OTC Derivatives Trade Notification Format

BOSTON — The **International Securities Association for Institutional Trade Communication** (ISITC), an industry task force focused on developing standards in transaction processing and related communications, has released a new trade notification standard for OTC derivatives, named the OTC Trade Notification Market Practice.

The standard covers notifications and communications to third-party providers such as custodians, accounting agents and prime brokers for the following steps in OTC derivatives trade processing: initiation, increase, novation, amendment and termination. The notifications allow the third parties to provide services including settlement, accounting, valuation and reconciliation.

The FpML-based standard enables market participants to receive swaps trades electronically, allowing custodians and accounting agents to build STP solutions.

"OTC [derivatives] is one of the newer but more popular products out there, and they tend to be extremely manual, with a lot of communication between the investment managers and the global custodians," says Genevy Dimitrion, Chair of ISITC. "Our members walked through the entire process from a business perspective around the notifications for contracts within the OTC derivatives space, how the players work, the communications and the different processes."

The new standard was developed by ISITC's 130-member OTC Derivatives Working Group with the **Asset Managers Forum** (AMF), an affiliate of SIFMA [**Securities Industry and Financial Markets Association**], and built on FpML, the official language of OTC derivatives. "The AMF came to us since we had the market practice experience and have a lot of participants, asking that we work together and agree on the best way to communicate electronically for OTC derivatives," says Dimitrion.

Data communicated under the standard can be classified as interest-rate swaps, credit-default swaps or total-return swaps. The processing will be the same for each.

The standard also makes it possible for market participants to receive swaps trades electronically in a consistent format, which will allow custodians and accounting agents to build solutions that will create straight-through processing. "Because of the large increases in OTC derivatives trading volumes, investment managers have put a high priority on automating notifications to relevant third parties," adds Dimitrion.

The architects of the standard had to develop definitions for each of the trade processing steps, according to Dimitrion. "Initiation is the creation of the contract, or the 'open,'" she says. "The increase is an increase in the notional or the size of the contract — how an upward move in the notional or magnitude of the contract is defined. The novation is when one or both of the parties in the contract are being replaced. An amendment, the group explicitly said, has to be bilaterally agreed, really an adjustment, but more than a change to the notional — an addition to the notional."

Data communicated under the standard can be classified as interest-rate swaps, credit-default swaps or total-return swaps, but the processing will be the same for each type, according to Dimitrion. "The flow is the same," she says. "It says whether the data element is mandatory, optional or conditional. The difference is purely in the data being communicated between the two counterparties." ❑