



FIA Post-Trade Standards Working Group CDS Trade Netting, and Credit & Succession Enhancements

October 3, 2012

Revision 0.2

Proposal Status: ~~Public Comment~~Approved

For Global Technical Committee Governance Internal Use Only

Submission Date	October 10, 2012	Control Number	<u>EP165</u>
Submission Status	Public Comment	Ratified Date	<u>November 19, 2012</u>
Primary Contact Person	Ryan Pierce, CME Group	Release Identifier	<u>5.0 SP3</u>

DISCLAIMER

THE INFORMATION CONTAINED HEREIN AND THE FINANCIAL INFORMATION EXCHANGE PROTOCOL (COLLECTIVELY, THE "FIX PROTOCOL") ARE PROVIDED "AS IS" AND NO PERSON OR ENTITY ASSOCIATED WITH THE FIX PROTOCOL MAKES ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE FIX PROTOCOL (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF) OR ANY OTHER MATTER AND EACH SUCH PERSON AND ENTITY SPECIFICALLY DISCLAIMS ANY WARRANTY OF ORIGINALITY, ACCURACY, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. SUCH PERSONS AND ENTITIES DO NOT WARRANT THAT THE FIX PROTOCOL WILL CONFORM TO ANY DESCRIPTION THEREOF OR BE FREE OF ERRORS. THE ENTIRE RISK OF ANY USE OF THE FIX PROTOCOL IS ASSUMED BY THE USER.

NO PERSON OR ENTITY ASSOCIATED WITH THE FIX PROTOCOL SHALL HAVE ANY LIABILITY FOR DAMAGES OF ANY KIND ARISING IN ANY MANNER OUT OF OR IN CONNECTION WITH ANY USER'S USE OF (OR ANY INABILITY TO USE) THE FIX PROTOCOL, WHETHER DIRECT, INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL (INCLUDING, WITHOUT LIMITATION, LOSS OF DATA, LOSS OF USE, CLAIMS OF THIRD PARTIES OR LOST PROFITS OR REVENUES OR OTHER ECONOMIC LOSS), WHETHER IN TORT (INCLUDING NEGLIGENCE AND STRICT LIABILITY), CONTRACT OR OTHERWISE, WHETHER OR NOT ANY SUCH PERSON OR ENTITY HAS BEEN ADVISED OF, OR OTHERWISE MIGHT HAVE ANTICIPATED THE POSSIBILITY OF, SUCH DAMAGES.

DRAFT OR NOT RATIFIED PROPOSALS (REFER TO PROPOSAL STATUS AND/OR SUBMISSION STATUS ON COVER PAGE) ARE PROVIDED "AS IS" TO INTERESTED PARTIES FOR DISCUSSION ONLY. PARTIES THAT CHOOSE TO IMPLEMENT THIS DRAFT PROPOSAL DO SO AT THEIR OWN RISK. IT IS A DRAFT DOCUMENT AND MAY BE UPDATED, REPLACED, OR MADE OBSOLETE BY OTHER DOCUMENTS AT ANY TIME. THE FPL GLOBAL TECHNICAL COMMITTEE WILL NOT ALLOW EARLY IMPLEMENTATION TO CONSTRAIN ITS ABILITY TO MAKE CHANGES TO THIS SPECIFICATION PRIOR TO FINAL RELEASE. IT IS INAPPROPRIATE TO USE FPL WORKING DRAFTS AS REFERENCE MATERIAL OR TO CITE THEM AS OTHER THAN "WORKS IN PROGRESS". THE FPL GLOBAL TECHNICAL COMMITTEE WILL ISSUE, UPON COMPLETION OF REVIEW AND RATIFICATION, AN OFFICIAL STATUS ("APPROVED") FOR THE PROPOSAL AND A RELEASE NUMBER.

No proprietary or ownership interest of any kind is granted with respect to the FIX Protocol (or any rights therein).

Copyright 2003-2012 FIX Protocol Limited, all rights reserved.

Table of Contents

Document History.....	5
1 Introduction	6
2 Business Workflow.....	6
2.1 Termination	6
2.2 Credit and Succession Events	6
3 Issues and Discussion Points	7
4 Proposed Message Flow	7
4.1 CDS Netting	7
4.2 Credit Event	8
4.3 Succession Event.....	8
5 FIX Component Blocks	9
5.1 Component <RelatedTradeGrp>	9
Appendix A - Data Dictionary.....	11
Appendix B - Glossary Entries	13
Appendix C - Abbreviations.....	13
Appendix D - Usage Examples.....	13

Table of Figures

1 Introduction

The Dodd-Frank Act's 17 CFR Part 45 requires reporting for Credit Default Swap (CDS) transactions. Clearing houses that net CDS trades for the same instrument into single trades for keeping positions need to account for the termination of the original cleared trades, in addition to the creation of netted trades, each with a unique USI assigned by the clearing house. While the FIA PTWG Trade Reporting Extensions (EP141) addresses the creation of netted trades, no method exists today to indicate terminated trades. Additionally, Related Transactions and Positions (EP 142), which can be used for netting, needs a method to reference a USI.

CDS trades and positions can be created or modified due to credit events and succession events:

- Credit events like bankruptcy or index restructuring causes the CDS positions to be rolled into a new instrument because the original instrument stops trading. This results in existing positions in the old instrument moving to the new instrument.
- If an entity A acquires 100% of entity B, or company A spins off a new entity, this triggers a succession event. This once again results in creation of trades.

Both of these cases require an offsetting trade to remove the position completely or partially in the old instrument, and new trade(s) in the new instrument.

2 Business Workflow

2.1 Termination

This gap analysis proposes adding a new TrdRptStatus(939) enumeration for "Terminated." While an existing enumeration for Cancelled exists, this does not suffice. Generally speaking, cancelling a swap denies the validity of the swap, and no cash flows would be exchanged. A swap might be cancelled in the case of a trade submitted in error. However, in the case of a Terminated swap, the swap is considered valid, which includes cash flows that may have been exchanged.

Additionally, the RelatedTradeGrp component was created, in part, to list trades as the result of netting. This currently does not support referencing the USI sent in the RegTrdID component. This gap analysis proposes adding a new enumeration for RelatedTradeIDSource(1857) of "Regulatory trade ID". Regulatory IDs consist of two fields: RegulatoryTradeID and RegulatoryTradeIDSource. RegulatoryTradeID can map into RelatedTradeID(1856). RegulatoryTradeIDSource cannot map into RelatedTradeIDSource(1857) due to its use for other purposes, so we propose the creation of a new field RelatedRegulatoryTradeIDSource([2103](#)).

2.2 Credit and Succession Events

In the case of a credit and succession events, the clearing house may need to reduce or eliminate the position in the original CDS instrument. The trades that are created out of this process (both the offsetting trade and the new trade) are created by the clearing system as a result of these events. To indicate the cause of this trade as a credit or succession event, this gap analysis proposes extending TrdType(828) by adding "Credit event trade" and "Succession event trade".

Also, in the case of a succession event, the clearing system can send new trades to the firms and identify the cause of the trades using the proposed TrdType of "Succession event trade".

Additionally, to identify the cause of the credit or succession event, this gap analysis proposes adding the following TrdSubType(829) enumerations:

- Default (credit event)
- Restructuring (credit event)
- Merger (succession event)

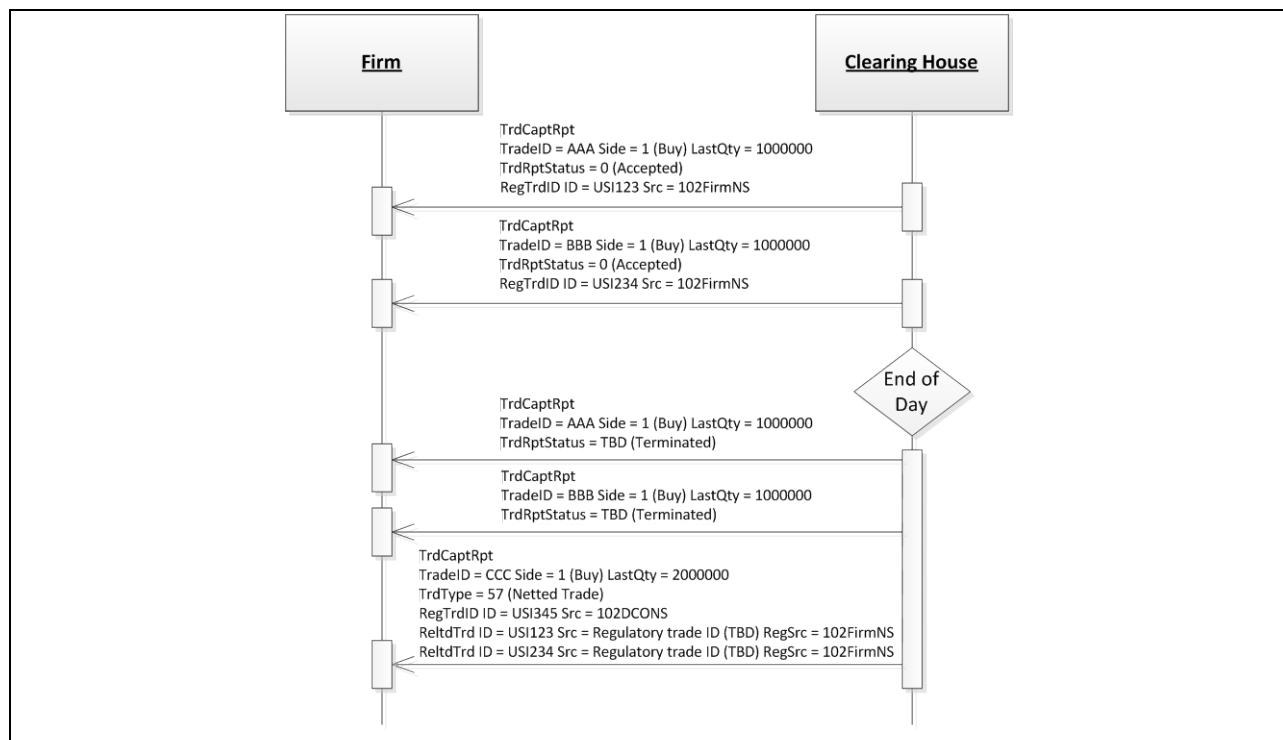
- Spin-off (succession event)

3 Issues and Discussion Points

4 Proposed Message Flow

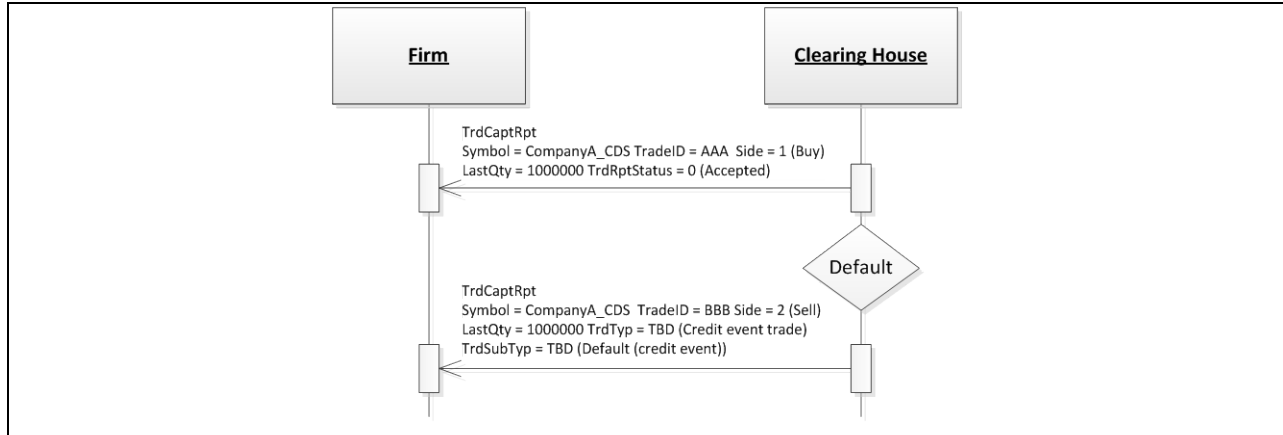
4.1 CDS Netting

Two trades for \$1MM notional each are netted at day end into one trade for \$2MM notional. Note that each trade has a unique USI in the namespace of the firm that submitted it. The netted trade has a USI created by the DCO in the DCO's namespace. It also references the USIs of all the trades that it nets.



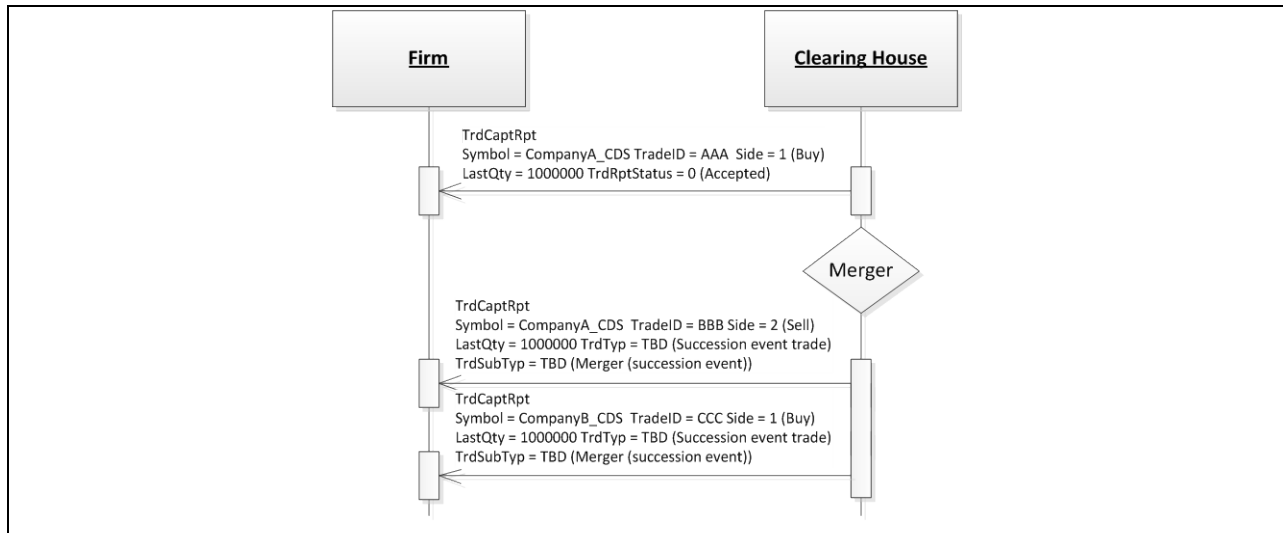
4.2 Credit Event

Due to a default, the position for a \$1MM notional trade is eliminated.



4.3 Succession Event

Due to a merger, the position for \$1MM CDS of Company A becomes \$1MM CDS of Company B.



5 FIX Component Blocks

5.1 Component <RelatedTradeGrp>

To be completed at the time of the proposal – all information provided will be included in the repository	
Component Name	RelatedTradeGrp
Component Abbreviated Name (for FIXML)	ReltdTrd
Component Type	_X_ Block Repeating ___ Block
Category	Common
Component Synopsis	This component is used to identify trades that are related to each other for a business purpose, such as netting of forwards. This component should not be used in lieu of explicit FIX fields that denote specific semantic relationships, but rather should be used when no such fields exist.
Component Elaboration	
To be finalized by FPL Technical Office	
Repository Component ID	2209

Component FIXML Abbreviation: <ReltdTrd>						
Tag	Field Name	Req'd	ICR	Action	Mapping and Usage Comments	FIX Spec Comments
1855	NoRelatedTrades	N				
→	1856	RelatedTradeID	N			Required if NoRelatedTrades(1855) > 0.
→	1857	<i>RelatedTradeIDSource</i>	N			
→	FBD2103	<i>RelatedRegulatoryTradeIDSource</i>	N	NEW		Optionally used for RelatedTradeIDSource(1857)= FBD6 (Regulatory trade ID) when RelatedTradeID(1856) is not unique across multiple reporting entities.
→	1858	<i>RelatedTradeDate</i>	N			Optionally used to help identify the trade when RelatedTradeID(1856) is not unique across multiple days.

CDS Trade Netting, and Credit & Succession Enhancements

FIX Protocol Gap Analysis CDS Trade Netting-Credit-Succession Rev 0.2_ASBUILT.docx

October 3, 2012 - Revision 0.2

→	1859	<i>RelatedTradeMarketID</i>	N				Optionally used to help identify the trade when RelatedTradeID(1856) is not unique across multiple markets.
→	1860	<i>RelatedTradeQtyantity</i>	N				
</ReltdTrd>							

Appendix A - Data Dictionary

Tag	FieldName	Action	Datatype	Description	FIXML Abbreviation	Add to / Deprecate from Message type or Component block
828	TrdType	CHANGE	int	Type of trade. 0 = Regular trade ... 57 = Netted trade TBD-59 = Credit event trade TBD-60 = Succession event trade	TrdTyp	
829	TrdSubType	CHANGE	int	Further qualification to the trade type ... TBD-40-44 = Default (credit event) TBD-41-45 = Restructuring (credit event) TBD-46-2 = Merger (succession event) TBD-47-3 = Spin-off (succession event)	TrdSubTyp	
939	TrdRptStatus	CHANGE	int	Trade Report Status 0 = Accepted 1 = Rejected 2 = Cancelled 3 = Accepted with errors 4 = Pending New 5 = Pending Cancel 6 = Pending Replace TBD-7 = Terminated	TrdRptStat	

CDS Trade Netting, and Credit & Succession Enhancements

FIX Protocol Gap Analysis CDS Trade Netting-Credit-Succession Rev 0.2_ASBUILT.docx

October 3, 2012 - Revision 0.2

1857	RelatedTradeIDSource	CHANGE	int	<p>Describes the source of the identifier that RelatedTradeID (1856) represents.</p> <p>0 = Non-FIX source 1 = Trade ID <u>Symbolic name: [TradeID]</u> 2 = Secondary trade ID <u>Symbolic name: [SecondaryTradeID]</u> 3 = Trade report ID <u>Symbolic name: [TradeReportID]</u> 4 = Firm trade ID <u>Symbolic name: [FirmTradeID]</u> 5 = Secondary firm trade ID <u>Symbolic name: [SecondaryFirmTradeID]</u> TBD-6 = Regulatory trade ID <u>Symbolic name: [RegulatoryTradeID]</u></p>	Src	
<u>TBD-21</u> <u>03</u>	RelatedRegulatoryTradeIDSource	NEW	String	<p><u>Specifies the ID identifier of the reporting entity as assigned by regulatory agency.</u></p>	RegSrc	Add to RelatedTradeGrp

Appendix B - Glossary Entries

Term	Definition	Field where used

Appendix C - Abbreviations

Term	Proposed Abbreviation	Proposed Messages, Components, Fields where used

Appendix D - Usage Examples