

ISDA AND DOCUMENTATION ARCHITECTURE
Explanatory Note

Yu, Chan & Yeung Solicitors

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Mission of ISDA

International Swaps and Derivatives Association, Inc. (“**ISDA**”) is a private trade organization whose members consist of the financial institutions, as leading market participants, engaging in the over-the-counter derivatives (“**OTC Derivatives**”) transactions. Established in 1985 and headquartered in New York, the ISDA’s missions are to help the market participants to identify and reduce risks associated with the privately negotiated OTC Derivatives.

Documentation Architecture

The ISDA accomplishes its missions by (i) drawing up agreement templates in the OTC Derivatives transactions to use in negotiation; and (ii) providing a platform for the financial institutions that engages in the OTC Derivatives market to create network and raise concerns and issues is commonly found in the OTC Derivative transactions. In this respect, the ISDA identifies its three key work areas below:

- (1) to reduce the risk and cost of derivatives;
- (2) to streamline and standardize the documents used in the OTC Derivatives markets; and
- (3) to make the OTC Derivatives markets safe and efficient.



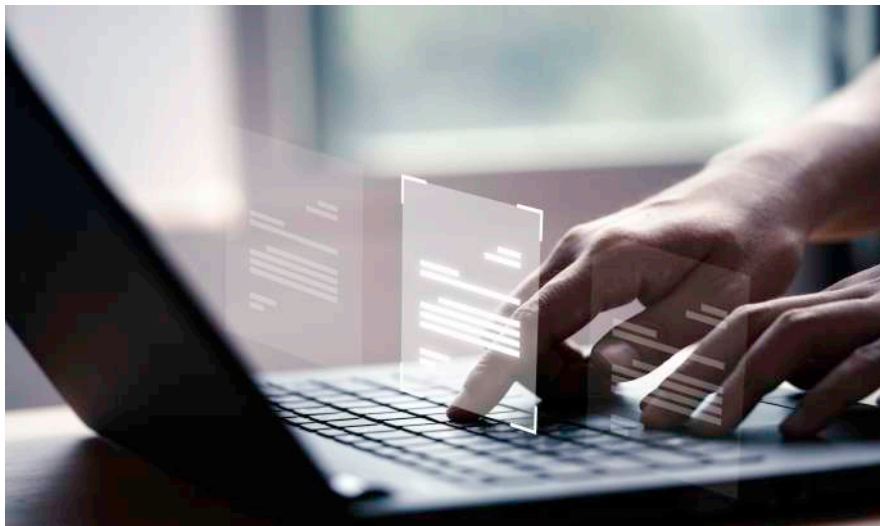
As part of its missions of streamlining and standardizing the documents used in the OTC Derivative markets, the ISDA has built up its own documentation architecture by providing:



- (1) the ISDA Master Agreement (“**Master Agreement**”);
- (2) the schedule to the ISDA Master Agreement (“**Schedule**”);
- (3) Confirmations, definitions, credit support annex and other annexes; and
- (4) Protocol (“**ISDA Protocol**”).

ISDA Master Agreement

The Master Agreement was first published in 1992 and updated in 2002. Thereafter, no further update is made. The Master Agreement, which is divided into 14 sections and an umbrella agreement to set out the overarching terms, is intended to provide an outline of all the areas for negotiation in the OTC Derivatives transactions (e.g. events of default, termination events and netting). In addition to the Master Agreement, the Schedule, which facilitates the trading parties to add to or modify the standard terms of the Master Agreement as needed to fit in with the contemplated transactions, is exhibited to the Master Agreement.



ISDA Confirmations

Under the Master Agreement, it is provided that the parties will enter into a confirmation (“**ISDA Confirmation**”) which supplements and forms an integral part of the Master Agreement. The ISDA Confirmation is used to document trade terms of the OTC Derivatives transactions (e.g. considerations, payment obligations and mechanisms and administrative details). Further, definitions (“**ISDA Definitions**”) published by the ISDA from time to time (e.g. interest rate derivatives, commodity derivatives, inflation derivatives, equity derivatives, credit derivatives and foreign exchange and currency option derivatives definitions) will be incorporated into the ISDA Confirmation by reference. The most commonly used ISDA Definitions are set out below.

ISDA Definitions

The ISDA Definitions, which are commonly used, are the interest rate, credit and equity derivatives definitions.

Interest Rate Derivatives Definitions

The ISDA published the 2021 ISDA Interest Rate Derivatives Definitions (the "**2021 Definitions**") to replace the 2006 ISDA Definitions and its supplements (the "**2006 Definitions**") since the 2006 Definitions turn unwieldy due to bulky supplements. The key changes relate to the role of the Calculation Agent as well as the various Cash Settlement Methods referenced by the 2021 Definitions.

Credit Derivatives Definitions

Credit derivatives are derivative instruments that derive price and value from the credit risk embedded in the debt obligations and or associated with the creditworthiness of a third party. The ISDA Credit Definitions are the market standard definitions for credit derivative transactions and the building blocks for all credit derivative transactions.

Equity Derivative Definitions

Equity derivatives are financial instruments that reference and offer economic exposure to the performance of an equity asset or other equity-related variable from which the price and value of the instrument is derived. The ISDA Equity Derivatives Definitions are drafted to be used in connection with confirmations relating primarily to option transactions, forward transactions and equity swaps regulated by the Master Agreement already entered into by the parties. The ISDA Equity Derivatives Definitions, which provide a framework of market-standard terminology and contingencies for when prices cannot be obtained, trading days for exchange operation or for the processing of calculations are disrupted, or underlying shares are nationalised or merged.



Credit Support Annex

While exchange-traded derivatives carry high risks, OTC Derivatives transactions are associated with higher risk than exchange-traded derivatives. Credit Support Annex (the “CSA”) as a credit support document is an integral part to the Master Agreement that defines the terms for the provision of collateral by the parties in OTC Derivatives transactions in order to ensure that both party can cover any losses. In addition, The credit support documents can also be a standalone credit support deed.

The ISDA has also published other annexes (e.g. US Emissions Annex and EU Emission Annex) for the market participants to use.

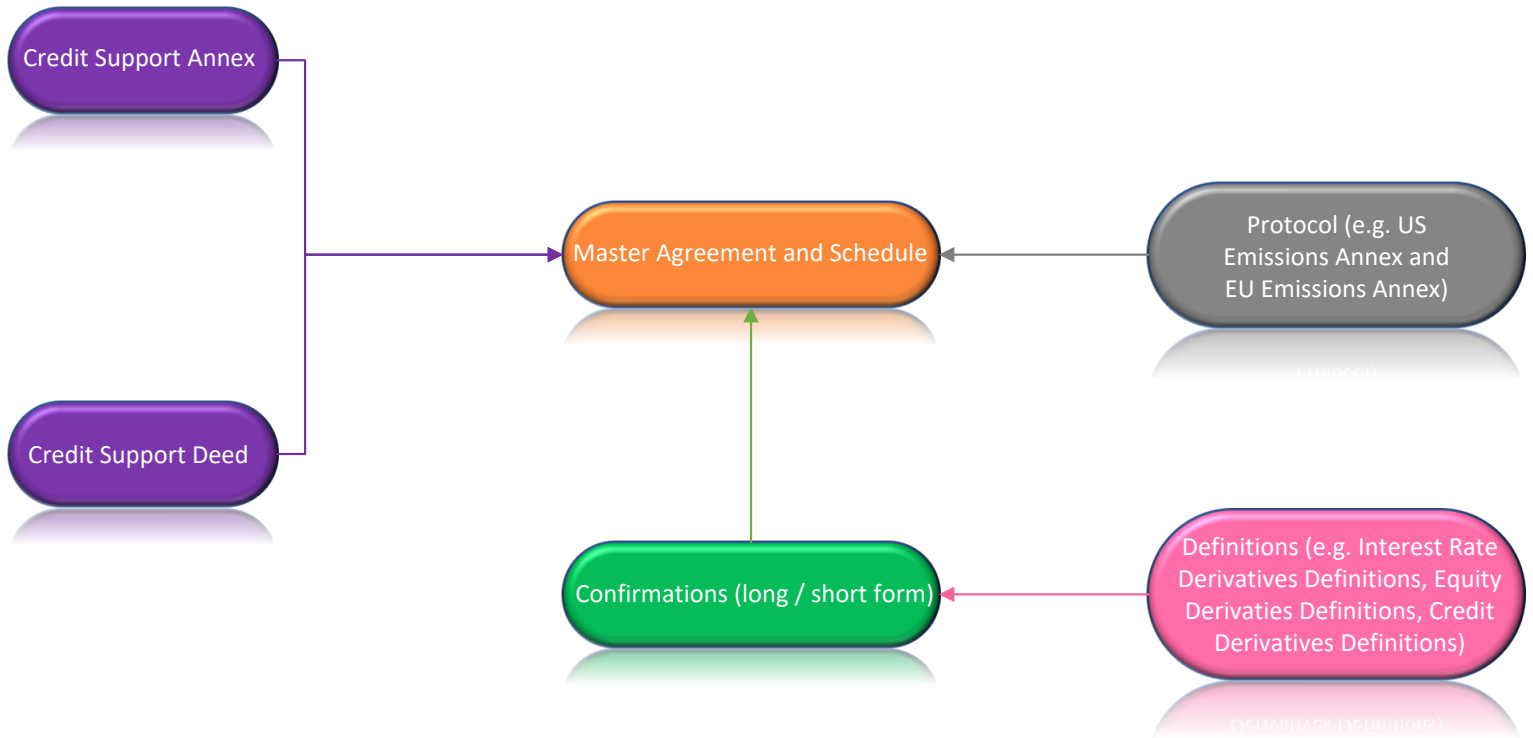


Protocol

The ISDA Protocol operates as a multilateral contractual amendment mechanism to permit for various standardized amendments to be deemed to be made to the relevant agreements under the ISDA documentation architecture already been entered into between the two parties. The ISDA Protocol is designed to provide market participants a solution to the need for regular amendments to existing agreements between a large number of bilateral counterparties.

For your information, the ISDA documentation architecture is depicted in diagram below.

ISDA Documentantation Architecture Diagram



This explanatory note is not, and should not be, regarded as a legal advice.

Should you have any questions, please contact our Mr. Lawrence Yeung on (852) 2854 3070 or by email at lawrence.yeung@ycylawyers.com.hk.