
**Data Standardization Subcommittee of the
CFTC's Technology Advisory Committee**

Working Group 2 – Machine-Readable Legal Documents

Interim Recommendations to the Technical Advisory Committee

December 13, 2011

Working Group Members and Recommendation Highlights

Working Group Members	Working Group Coordinator and Government Representatives
Pierre Lamy, Goldman Sachs	Nancy R. Doyle, CFTC
Paulo Rodela, BlackRock Solutions	Walter Hamscher, SEC
Michael Will, Innodata docGenix LLC	Bill Nichols, Office of Financial Research, U.S. Treasury

➤ Recommendation Highlights:

- **Transactional Legal Agreements - Complex & Bespoke Products** → Adoption of the Generic Product data representation to equip regulators with an appropriate level of information while preserving the ability of the marketplace to innovate.
- **New Portfolio Legal Agreements** → Leverage the ISDA Standard Credit Support Annex (“CSA”) initiative to create a highly “standardized” data representation of the ISDA CSA. Explore possibility/options for electronic execution.
- **Legacy Portfolio Legal Agreements** → Finalize an industry-wide survey to identify Legal Agreement information relevant to systemic risk. Survey will confirm scope, feasibility and collate information relevant to a cost-benefit analysis. Work will continue into 2012.

Transactional Legal Agreements - Complex & Bespoke Products

➤ **The recommendation: The Generic Product representation**

- A widely-adopted simplified data representation used for trade processing and reporting purposes until such time as a product has reached an appropriate level of maturity for data standardization.
- Approach will equip prudential regulators with an appropriate level of information, that can be expressed using the same data protocol as standardized products:

Functional Category	Generic Product Representation
Operational data	Same as standardized trades negotiated and confirmed non-electronically.
Product information	Taxonomy classification will be provided, but not the UPI.
Transaction economics	Basic information.
Valuation data	Same as standardized trades.
Counterparty information	Same as standardized trades.
Underlyer information	The data structure exists. Its usage may differ across products.
Event data	While the FpML structure exists, its usage may be limited in practice.

➤ **A cost/benefit analysis shows that such approach provides a progressive path, with a good cost-benefit outcome**

- Reduced time-to-market and cost for non-standardized products, preserving the ability to innovate.
- Limited downside for prudential regulators, until such time as they desire to compute risk and valuation analysis.
- Progressive solution, as the same data representation protocol can be used throughout the product innovation lifecycle.

➤ **Industry feedback has been extremely positive and supportive.**

New Portfolio Legal Agreements – The Standard CSA Initiative

➤ **The ISDA Standard CSA initiative**

- The ISDA Standard Credit Support Annex (“SCSA”) initiative is a standardized version of the widely used English Law and New York Law ISDA CSA.
- The SCSA will provide the following benefits for market participants:
 - Align the mechanics and economics of collateralization between the bilateral and cleared OTC markets, resulting in more consistent pricing and a reduced risk and cost of hedging.
 - Simplify the processes associated with such terms, and reduce margin disputes resulting from pricing differences among participants.
 - Facilitate the integration of collateral terms into the pricing tools as a result of the elimination of complex bespoke clauses.

➤ **The recommendation: aim for an electronic data representation**

- The intent of the SCSA Committee chairs is to have draft New York Law and English Law forms of CSA finalized in the early part of Q2 2012.
- The FpML Standards Committee is evaluating the possibility of forming a working group to develop an electronic representation of the SCSA.
- Electronic execution of the SCA will require complex legal analysis but will ensure that the executed SCSAs remain true to the principle of “standardization”.

Legacy Portfolio Legal Agreements – Legacy Documents

➤ The problem

- Despite the existence of industry standard documentation, the prevailing bilateral negotiation process has resulted in an infinite variety of legal clauses (“Legal Clauses”) that are difficult (but not impossible) to represent electronically. By way of example:

Legal Clause Text	Machine-Readable Data Representation
○ ... is downgraded below A-.	<trigger>BBB+</trigger>
○ ... ceases to be rated at least A-.	
○ ... is downgraded to BBB+ or below.	
○ ... is rated BBB+ or below.	

➤ Proposed Approach

- Evaluate the opportunity to define a progressive path to electronically represent the Legal Clause data that is of most value to regulators from a systemic perspective.
- To be successful, a pragmatic and realistic approach will need to be adopted, which also takes into consideration a thorough cost/benefit analysis for market participants.
- Initial scope should be well defined and limited. The concepts contained in Legal Clauses are multi-dimensional and involve many data points.

➤ Status

- The Working Group is finalizing an industry survey to assess the current capabilities of market participants and evaluate the feasibility and cost/benefit of electronically representing Legal Clause data.
- Plan is to conduct the survey early next year.