Common Domain Model: the path to efficiency *By Ian Sloyan*

REPO

Without intending it, the infrastructure supporting capital markets transactions has become incredibly complicated and resource intensive. As the markets developed, each firm established its own systems and its own unique set of representations for events and processes that occur during the life of a typical bond, loan or derivatives trade.

This disparate and duplicative infrastructure has become more complicated with the layering of additional processes – clearing, electronic trading, reporting, margining – to meet regulatory requirements.

The lack of commonality in how events and actions are described, defined and documented has led to high levels of manual intervention, and constant reconciliation is required after each step in the trade lifecycle to eliminate inconsistencies, both between counterparties and within internal systems. This is inefficient, resource intensive and costly – there is simply no commercial advantage to organizations maintaining their own representations.

In response, the International Swaps and Derivatives Association (ISDA) has developed the ISDA Common Domain Model (CDM), which establishes a set of standard representations for events and processes that occur throughout the lifecycle of a typical financial contract.

By doing so, the ISDA CDM provides a consistent, transparent and accurate blueprint of the market that can be used by all participants. This will improve efficiency and reduce the need for continual cross-checking and reconciliation. It will also promote transparency and alignment between regulators and market participants. For example, regulatory obligations, such as reporting or stress testing, could be met by specifying via code that certain CDM components or transaction data should be collected and presented in a certain way. This will drastically improve fidelity and integrity of regulatory data, removing regulatory and interpretation risk.

Importantly, using a common set of representations will enable firms to develop automated solutions that can be interoperable and scalable in a way that has not been achieved before. Greater interoperability between firms and platforms will help realize the full potential of new technologies like smart contracts and cloud, and will help increase automation and efficiency and reduce costs. Furthermore, the ISDA CDM will be distributed in different language formats as required by implementers to ensure consistent implementation of representations, events and processes on different technologies.

ISDA launched a full, deployable version of the ISDA CDM for interest rate and credit derivatives earlier this year, and a number of industry initiatives are now under way to implement the model. For example, the CDM has been successfully rolled out to support the UK Financial Conduct Authority, the Bank of England and participating financial institutions in testing phase two of the digital regulatory reporting pilot.

ISDA is also working with partner trade associations such as ICMA to extend the CDM to repo and securities lending markets.

In an environment of increased regulatory compliance expenses and lower returns on equity, financial institutions need to look at how they can increase efficiencies and reduce costs. Technology can provide a large part of the answer – but we need to get the foundations right first.

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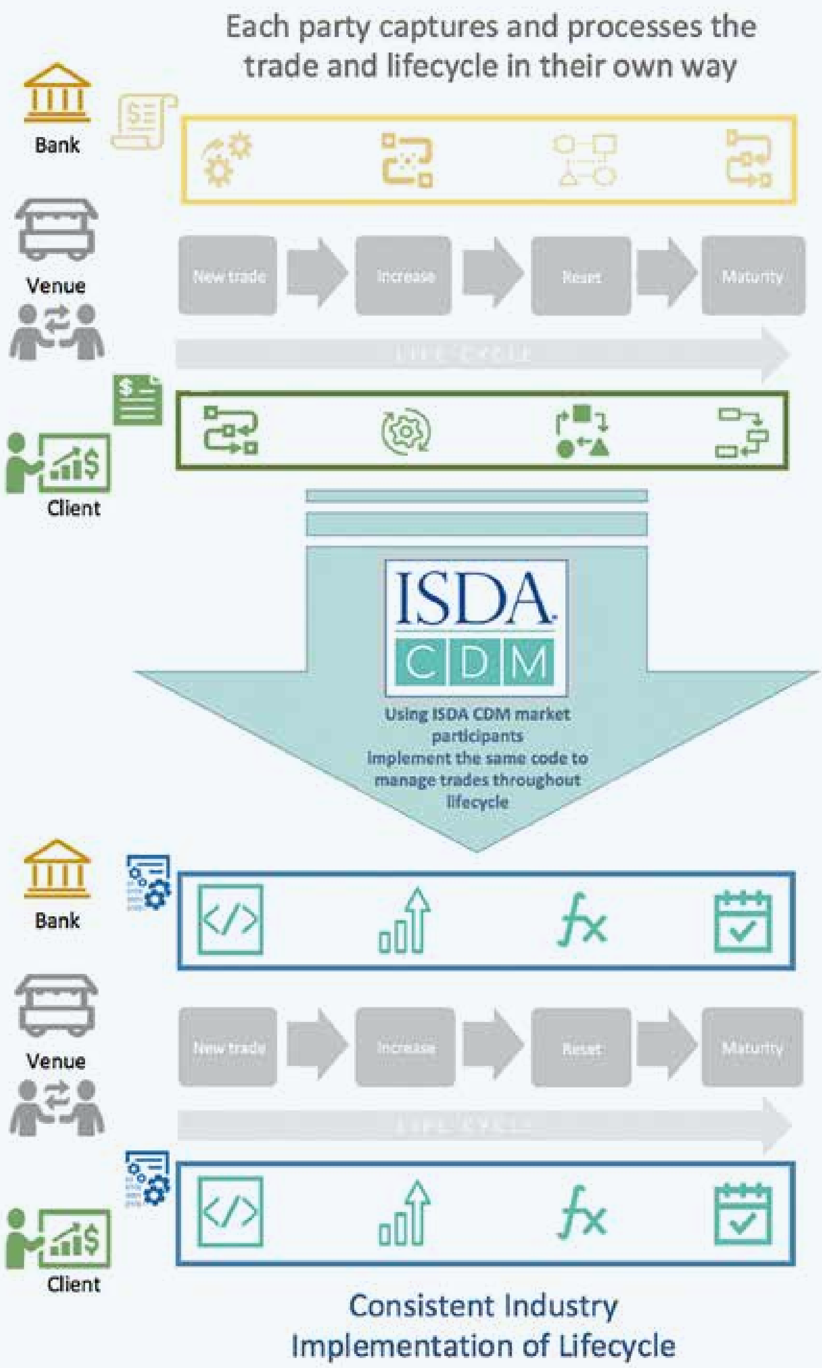
Each party captures and processes the trade and lifecycle in their own way
Bank
Venue
Client
New trade
Increase
Reset
Maturity
ISDA
CDM
Using ISDA CDM market participants Implement the same code to manage trades throughout lifecycle
Bank
Venue
Client
New trade
Increase
Reset
Maturity
Consistent Industry Implementation of Lifecycle