

Typical Process Flow for Interest Rate Swaps

ISDA Negotiation and Documentation

Investment Team ensures ISDA and credit line are in place with BD for account

Determine if the client's ISDA or IM ISDA will be used

Use an ISDA (OR) Trade under a Long Form Confirm with all legal/credit terms or until an ISDA is negotiated

Determine if a Credit Support Annex is applicable and who will manage the collateral

Notify relevant parties (i.e. collateral management group, custodian, etc.) of the terms of the agreement

The terms and conditions of a swap transaction are written in the confirm by BD and sent to the IM (long confirms are sent if there is no ISDA Master Agreement)

Trade Execution and Post-Execution

IM and BD traders execute trade via phone or email

IM and BD set up security on internal systems

IM and BD enter block level trade into their trade systems

IM enters block level trade and allocation into IM trade system

BD sends block level trade information to IM

IM matches block level trade details and resolves any differences with BD

On T+3 or later, IM receives account level confirm (or long confirm) signed by BD

Post-trade team sends trade details to the pricing team to set up pricing process

IM sends trade details to custodian, prime broker and/or fund accountant

BD enters allocation into BD trade system

IM sends allocation to BD

IM matches financial and account information on the confirm to IM's records and resolves any differences

IM reviews legal terms on the confirm, resolves any differences and executes confirm

IM sends executed confirm to BD

IM sends trade ticket/ executed confirm to custodian, prime broker and/or fund accountant

Compliance

Throughout the process, the Compliance Group monitors risk exposures and ensures that the IM adheres to its client's guidelines. Swap attributes are evaluated before the instrument is allocated to a client portfolio. Subsequent review is undertaken on a portfolio level on a regular basis.

Valuation

Swap is subsequently valued on a daily basis and reconciled between IM, BD and Custodian. (See Best Practice III)

IM extrapolates prices and uploads into proprietary systems

IM pricing team enters appropriate market data information into a financial tool (i.e. Bloomberg, Yield book, etc.) or sends relevant information to pricing vendor or broker dealer

IM pricing team gathers relevant data from IM securities database, IM trading system and other sources

Custodian sets up in their internal systems and independently price the swap

Custodian, prime broker and/or fund accountant creates security in internal database

Maintenance

Relevant information i.e. trade confirm is sent to the collateral management group and payments group ("Swap Maintenance")

Swap Maintenance Group checks the database of ISDA Agreement & Credit Support Annex terms to verify the collateral terms

Collateral is posted or requested and the BD and Custodian are notified of collateral movement

Custodians accept the delivery of collateral or post collateral to BD

Maintenance Group monitors collateral and ensures payment resets take place on payment date and verifies periodic rates throughout the life of the swap

