

Understanding the CDM

More efficient post-trade processing has been a long-term goal for the financial services sector, with an ever-increasing number of technology providers competing to offer digital solutions to tackle the numerous and complex post trade tasks. With greater choice, comes greater risk, and the need for the market to embrace standards to drive efficiencies across all platforms.

ISLA has been working with its members and industry stakeholders, including industry associations to develop the FINOS CDM for the securities lending market. This paper outlines the key benefits of the CDM and how applying it to your product lifecycle can lead to greater resilience, efficiencies and cost savings.

What you Need to Know

- The CDM is an agreed upon, standardised domain model i.e. a standard digital representation of data and function. Importantly, the CDM is based on real-world business outcomes, and is focused on standardising processing, not just the underlying data.
- The CDM is based on cross-industry collaboration between ISLA, ISDA, and ICMA, and facilitates trade processing of securities lending, derivatives and repo transactions.
- ISLA's CDM project for the securities lending lifecycle standardises each step, such as onboarding, contractual negotiations, collateral management, and corporate actions, allowing for quick construction of product and event models, by utilising components from the CDM and augmenting them as needed for securities lending purposes.
- The CDM itself is open-source and freely available in a range of different code bases, including Java, C# and Python, allowing it to be adopted into any mainstream technology stack.
- The CDM is hosted by [FINOS](#) and is available as the FINOS CDM under the FINOS Community Specification License 1.0.

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What is the CDM?

A CDM is an agreed upon, standardised domain model i.e. a standard digital representation of data and function. Importantly, the CDM is agreed upon real-world business outcomes, and is focused on standardising processing, not just the underlying data.

The FINOS CDM integrates all aspects of a transaction including: product representation; event representation and outcome, from regular events such as billing and margining, to less frequent complex corporate actions; legal documentation impacting a transaction, such as a GMSLA or a collateral agreement; process sequencing and outcome; reference data and translation into or from other data models. It has relevance in respect to post trade and lifecycle events and may also be seen as the application of best practice within a codified framework.

For more information on the CDM visit: <https://www.islaemea.org/common-domain-model/>

Catalyst for Change

Without an agreed and common data representation of key transaction features and life cycle events, each firm and platform must continuously reconcile its own data with that of other participants in order to ensure that they have the same information. That gives rise to inefficiency and is a brake on the development of automation and other technological solutions for the market at scale.

The CDM allows for unambiguous and consistent messaging, storage and processing of data. This simplifies many operational processes and reduces the need for reconciliations between systems or parties using the CDM.

In the longer term, having already encoded functionality, the CDM can enable the easier construction of smart contracts, faster connection to and support of a distributed ledger, and ultimately the ability for firms to innovate and compete on products, not on infrastructure or data storage.

What Benefits Does the CDM Offer?

Development of the CDM in the financial industry promotes transparency, efficiency, and innovation, and can bring significant benefits to market participants and regulators.

Application of the CDM can lead to a substantial reduction, if not a total eradication, of, Reconciliation breaks internally & externally; Valuation differences; Collateral disputes; Reporting mismatches; Operational inefficiency and, Operational risk.

The extent to which these benefits are realised is dependent on how fully the CDM has been integrated. For example, to reduce collateral disputes with a counterparty, both parties must be using the CDM, or to reduce internal inter-system breaks, those systems must be using the CDM.

What Does the CDM Mean for You?

C-suite

The CDM is a data model that provides a standard format for financial products and transactions in the capital markets industry. It is intended to improve data quality, increase efficiency, and reduce costs by creating a common language that enables automated trade processing and reduces the need for costly customisations.

The CDM not only defines a set of standardised data elements and their relationships, including details about the trade, parties involved, and cash flows, but also standardises processes, legal documentation and life cycle events.

By using the CDM, market participants can more easily exchange data with each other and across systems. Internally this will lower the risk of errors, reduce costs and enable more efficient workflows to be implemented; externally there will be smoother onboarding of new clients and allow a “plug and play” style transition between vendors.

Business/Product Heads

The common language that the CDM provides for financial products and transactions enables the seamless exchange of data between different systems, reducing errors and improving efficiency. The workflows and event management capabilities of the model provide a standard business logic, allowing all parties to a trade to guarantee compatibility and interoperability with CDM compliant systems.

The introduction of the CDM into an existing trading infrastructure can be done incrementally, providing a low-risk entry point to its broader adoption. Businesses can choose sections of the model that address their most pressing pain points, implementing tailored solutions that can be embedded into existing systems or executed as separate service layers.

Adoption of the CDM ensures effective communication and efficient processes in the trading lifecycle, thereby enhancing risk management and operational efficiency.

Technologists

One of the key strengths of the CDM lies in its integration capabilities, being flexible enough to be embedded within new or existing applications, or leveraged as a service layer for external communications and data exchange.

This in turn simplifies software development, reducing development costs and increasing efficiency. Incorporating the CDM into internal systems as a shared data model further enhances these benefits, making it easier to communicate with other systems and reduce errors caused by mismatched data formats. This can help streamline integration efforts and lower the total cost of ownership across systems.

The standardised data elements and relationships within the CDM form the basis of a machine-readable data dictionary, helping to eliminate ambiguity, define common representations of financial instruments, and improve interoperability between different systems.

How Can the CDM be Adopted?

The key to adopting the CDM is to understand that it can be introduced into your infrastructure incrementally. Existing systems and processes can be iteratively transferred across to use the CDM, allowing a low risk low cost implementation strategy to be designed.

This gives an organisation the benefit of isolating the processes that are the most problematic and addressing them specifically, without the need to rip out or restructure entire systems or platforms in one go.

The CDM itself is available in a range of different code bases, including Java, C# and Python, allowing it to be adopted into any mainstream technology stack. CDM functions can then be exposed as APIs, facilitating their use by existing and new applications.

How Can the CDM Support Securities Lending?

The CDM is a cross industry initiative, supporting derivative, repo and securities lending pre- and post- trade processes. It contains datatypes, functions and legal agreement representations that can be used to model simple and complex financial products.

Through the CDM Working Groups, and in partnership with technology partners, ISLA have been continually improving the coverage that the CDM has for the terms and events typically found in securities lending.

As of 2024, the CDM covers two thirds of all products, events and documentation required to facilitate securities financing trades, their transactions and legal agreements.

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