

ISDA Operations Committee

Settlements Working Group

- Drive settlement efficiency
- Standardize settlement practice
- Evolve” best practice” standards
- Provide Metrics
- Influence market development and use of technology

Settlement Best Practice Statement

Write Off Guidelines

- Write off limits should be maintained internally within each firm.
- All participants will investigate breaks raised by counterparties and settle interest claims where required, regardless of whether the items have been written off internally.
- Brokers may agree bilaterally on limits for one off payments (fees, etc...) under which no investigation would be necessary.

Pre Settlement Confirmations Guidelines

- Settlement confirmation guidelines should be set internally based on the individual firm’s risk policies and technological capabilities.
- Straight Through Processing of settlements should be the goal, given the proper controls are in place.
 - Depending on a firm’s internal process and control infrastructure, they may choose to confirm settlements prior to value date.
 - In these cases, a general guideline for settlement types that may not be STP’d include:
 - Fees/Premiums
 - Complex Trade Settlements
 - Payments over a set dollar value
 - First/Last Stub Payments
- Information for primary and escalation contacts should be maintained through the ISDA Portal.

Unapplied Funds Guidelines

The recommended settlement confirmation guidelines (see above) should reduce the level of unapplied funds, however, should the receiving party not recognize the funds, the following principles apply:

General

- Receiving party owns contacting the paying party to obtain further information prior to returning the funds and will provide necessary details to identify those funds (e.g. Swift field 20)
- Sending party needs to send trade details and/ or a document with the funds e.g. a novation document.

Time to return?

Unapplied funds < USD equivalent of 5mm

Receiving party is entitled to return the funds where the paying party has not supplied the information required within 7 business days after first contact. The return is not mandatory but should not happen before the 7 business days are over unless mutually agreed by the parties.

High value unapplied funds: >= USD equivalent of 5mm

the Receiving party is entitled to return funds after a minimum of two unsuccessful attempts (using the primary and escalation contacts provided on the ISDA portal) to obtain details from the Paying party without regard to the aforementioned 7 business day holding requirement.

Settlement Lock Ins

Schedule

- Lock-in Schedules should be agreed between firms based on their capacity and requirements.

- Participants should look to schedule as many lock-ins as possible to investigate and clear the maximum number of ledger breaks.

Standardized Template

- All participating firms should use a standardized template. The template should include all ledger breaks and unadvised cash. The number of priority items for each firm should be kept within a reasonable range to allow the investigating party adequate time to review and resolve. The template should include all relevant trade details that may help counterparts investigate the breaks.

Exchange of Information

- At least 7 calendar days prior to the agreed lock-in date, each participating firm should send their lock-in counterparty an updated template, giving them the opportunity to investigate items prior to the lock in conference call.
- A minimum of 25 priority items should be highlighted on each template. This is to ensure the investigating firm can identify those items that the sending firm deems most important.

Template Coordinator

- Each firm must designate a template coordinator for each of their respective counterparts. It is up to the individual institution whether they want to have one coordinator for all templates or multiple coordinators, each responsible for specific counterparty templates.
- The role of the template coordinator will include:
 - Ensuring the lock-in template is delivered to their counterparty and the appropriate 25 items are highlighted as priority items.
 - Ensuring that the 25 priority items on any received template are investigated by the appropriate individuals in time for the lock-in conference call.
 - Ensuring that the appropriate individuals attend the lock-in conference call so that at least all 25 priority items raised by their counterparty can be properly discussed.
 - Ensuring that any follow-up questions raised during a lock-in are answered within 5 business days.

Lock-In

- The lock-ins should be handled via conference call so the staff of each participating firm can have on-line access to their own systems and trade/settlement data.
- The two template coordinators should act as moderators to ensure that proper progress is made during the call.
- The template coordinators must ensure that all necessary settlement and middle office staff are on the call to ensure the highest possible resolution rate for open items.

Targets and Steady State (Credit and IRS)

Listed targets apply to vanilla products (such as those that can be processed through a matching platform such as DTCC or Swapswire). Targets for new, complex products should be agreed on a case by case basis.

2007 Targets (to be applied effective June 30, 2007)

- Unapplied statement items: No exceptions over 60 days
- Quarterly Roll CDS: No ledger exceptions over 60 days
- Non-Quarterly CDS: No ledger exceptions over 60 days
- Interest Rate Swaps: No ledger exceptions over 60 days

Steady State**

- Unapplied statement items: No exceptions over 30 days
- Quarterly Roll CDS: No ledger exceptions over 60 days*
- Non-Quarterly CDS: No ledger exceptions over 60 days*
- Interest Rate Swaps: No ledger exceptions over 60 days*

* After the implementation of the Data Warehouse Settlements functionality, these targets should be dropped to 30 days.

** The settlements area is heavily dependent on upstream processes, including the on-boarding of people on electronic systems specifically in the credit space and the resulting quality of the information flow to settlements. The development of the warehouse has a significant impact as well; and achieving the July settlement targets will depend e.g. on the success of the back loading process.

Finally, the resource commitments and operations infrastructure in a firm's settlement areas will ultimately impact the feasibility of the targets and steady state listed.

Steady State targets for unapplied statement items are not in line with current agreed process standards. As the industry approaches the ability to maintain 'Steady State' limits, the agreed best practice for processing unapplied funds will need to be revised.