ISDA®

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December 31, 2008

Ms Christine M. Cumming
First Vice President
Federal Reserve Bank of New York
33 Liberty Street, 10F
New York, NY 10045

Dear Ms Cumming,

In the last industry letter to Mr. Geithner (October 31, 2008) the Major Dealers included an extensive series of commitments relating to collateral management, with target dates ranging from the end of December 2008 through the end of May 2009. The ISDA Collateral Committee has mobilized a series of working groups to implement those commitments, and in this letter we would like to summarize the industry status with respect to the December 31 commitments.

Collateralized Portfolio Reconciliation

The Major Dealers had committed to accomplish a standard of weekly reconciliations of collateralized portfolios exceeding 5,000 trades between themselves no later than December 31. We are pleased to report that this goal has been accomplished, and we expect to continue to operate to this standard, or better, going forward. Your staff have been provided with confidential detailed reporting that shows the status of portfolio reconciliations between dealers in December. It is encouraging to report that the weekly standard has been universally attained amongst those dealers and also that a significant number are now able to exceed the required standard and reconcile portfolios daily.

Adequate Resources and Escalation Procedures

In addition to achieving the weekly portfolio reconciliation standard, the dealers agreed that they would provide adequate resources to identify and resolve portfolio differences on a timely basis, and would create escalation procedures for resolution of material differences within each firm and where necessary between the management of counterparty firms. Firms report that they have accomplished these objectives.

Further Targets for Collateralized Portfolio Reconciliation

Having achieved the December targets, we are pleased to set forth three follow-on targets for further industry improvement in 2009:

1. By the end of March 2009, the Major Dealers agree that they will have developed a proposal for a more appropriate, risk-based tolerance to replace the fixed $20mm level that is currently being used for reporting value differences. As you are aware, this tolerance is used purely in the statistical reporting of portfolio reconciliation differences that the industry will be providing to regulators from mid-February, but having an agreed basis for reporting is clearly an important goal for the industry. Once the new threshold is accepted, it will be implemented no later than the end of May 2009.

2. By June 30th, 2009, the Major Dealers have agreed that for portfolios between themselves that current practice will be improved in two important respects:

- First, the threshold portfolio size for the weekly portfolio reconciliation standard will be reduced from 5,000 to 500 trades, amongst the Major Dealers. The threshold of 500 trades was chosen to avoid a requirement to reconcile small portfolios that generally do not exhibit large degrees of mismatch and can be investigated readily by inspection when required.

- Second, the Major Dealers will upload their portfolios to the matching service(s) they utilize every day (notwithstanding holidays and days where technical issues prevent this occurring). This daily upload will allow the major participants in the market to facilitate investigation of disputes and, if necessary, reconciliation on any given day a dispute occurs.

3. The Major Dealers will agree standards for certain key operational features of the portfolio reconciliation process, notably: the timing of reconciliations; protocols for handling events such as bank holidays, systems fails and other outages; the method and format of data communication; data standards; timeframes to respond mutually to queries on reconciliations; and standard categorization of issues causing reconciliation differences. The development of these standards will be ongoing throughout the year and will be published before the end of 2009.

These new targets are designed overall to improve the quality, precision and scope of the portfolio matching process between the dealers and to develop a basis for standardization which will support eventual adoption by the wider OTC industry. We believe that this approach will yield the greatest benefits to systemic risk by improving quality between the Major Dealers whilst paving the way for further industry rollout. Compared with alternative ideas considered, such as expanding the scope of the existing commitments to include a wider range of counterparties on a mandatory basis, we feel that a controlled approach to industry rollout, starting with the dealer community, will improve the quality and effectiveness of this new process.

It should be noted that nothing above prevents dealers from operating to higher standards than those set out, and there is no bar to other OTC participants voluntarily electing to adhere to the same standards which will be published for industry benefit by ISDA. The Major Dealers will welcome broad adoption of portfolio reconciliation by OTC participants as a regular validation and exception management process and will work with ISDA to support the necessary standardization.

We continue to work on other previously-announced commitments, specifically statistical reporting on portfolio reconciliations (due mid February 2009), new approaches to resolving disputed collateral calls (April 2009), and the broader Roadmap for Collateral Management (May 2009)

We would be delighted to discuss further any of the foregoing and will also continue to keep your staff updated with progress on future deliverables.

Yours sincerely,

Julian Day
Head of Trading Infrastructure
International Swaps and Derivatives Association, Inc. (ISDA)

Michael Clarke
Managing Director, UBS AG
Co-Chair of the ISDA Collateral Committee

This letter has been approved by, and is sent on behalf of, the Major Dealer members of the ISDA Collateral Committee;

Bank of America, N.A.	*HSBC Group*
Barclays Capital	*JP Morgan Chase*
BNP Paribas	*Merrill Lynch*
Citigroup	*Morgan Stanley*
Credit Suisse	*The Royal Bank of Scotland Group*
Deutsche Bank AG	*Société Générale*
Dresdner Kleinwort	*UBS AG*
Goldman, Sachs & Co.	*Wachovia Bank N.A*