ISDA®

International Swaps and Derivatives Association, Inc.
360 Madison Avenue, 16th Floor
New York, NY 10017
United States of America
Telephone: 1 (212) 901-6000
Facsimile: 1 (212) 901-6001
email: isda@isda.org
website: www.isda.org

Request for Proposals:

European CDS Portfolio Compression

Issue date: October 23, 2009

1.Purpose

This Request For Proposals (RFP) seeks proposed solutions for advising credit default swap market participants with respect to the implementation of a portfolio compression strategy for European CDS.

The Credit Steering Committee is looking to receive proposals for compression of trades using the European fixed coupons, taking into account the changes to be expected from the advent of single name CDS clearing.

This RFP is a reopening of the June 11, 2008 RFP, building on the experience with compression over the last 12 months with the European market as the sole focus area.

In particular, input is sought on how to increase compression ratios and find the most optimal solution to compress trades across the range of six coupons used in Europe. The resulting trades should be clearable trades.

The participants in the first set of portfolio compressions will at the end of a 3 month period decide whether they will continue with portfolio compression and will have the option to reopen the RFP at that time to select another service provider. This reopening might include additional changes to the methodology to be followed.

Respondents to the RFP must show that they will be ready by November 23, 2009 to start the first set of portfolio compressions. Such respondents must provide all requirements for the institutions participating in the proof of concept and the first set of portfolio compressions no later than November 20, 2009.

The first set of portfolio compressions will be implemented as a multilateral service between the participating institutions. Bilateral exercises might be conducted at a later point in time.

Overview of problem to be solved

This RFP covers responsibilities of a service provider to be chosen to advise CDS market participants in executing a European portfolio compression strategy.

The objectives of portfolio compression include:

- Reduce portfolio sizes measured in trade count and/or gross notional value; to help operational efforts and minimize regulatory capital usage;
- generate no P&L, DV01 or JTD impact;
- Avoid creating breaks; and
- Provide predictable results and minimize decision making required by participants.

Particular focus should be put on proposed solutions to increase the compression ratios for portfolio of trades resulting in trades with one of the standard European coupons.

In addition thought should be given to the interaction between the compression service and clearing facilities short and longer term.

The High Level functionality to be provided by the service provider can be described as follows:

- Evaluate submitted trade portfolios to verify that such portfolios are consistent.
- Group trades according to the criteria for compression (e.g. by reference entity, maturity, etc)
- optimize notional reduction resulting in replacement trades using some or all of the European standard coupons.
- Report on change in counterparty exposure that the compression process introduces to the portfolio.
- Return the results to the submitting institutions.

Scope

Products

This RFP covers portfolio compression for

- European single name CDS in all major currencies.

Participants

This RFP covers the following types of participants:

- Large CDS dealers, typically commercial or investment banks.
- Large buy-side participants (such as asset managers and large hedge funds).

The system should be open, on a bilateral basis, to every counterparty in the credit derivatives market but participation is voluntary.

While ISDA will be involved in selecting the service provider and defining the terms of service, the principal contractual and financial relationships will be between the service provider and the participants. ISDA will not be a party to such principal contractual and financial relationship.

The first set of participants will be the initial and major users of the service who further specify the priorities and requirements.

Information Sources and Destinations
The principal sources of information for the portfolio compression service provider will include:

- DTCC's Trade Information Warehouse (TIW)
- Lists of selected portfolios provided by participants

All trade information will be retrieved from the TIW based on market participant inputs. As mentioned above, only gold copy warehouse confirmed trades that have experienced at least one cash flow will be considered.

Solution Timing and Priorities

A key requirement for the solution is rapid implementation. The ability to meet the proposed timelines will be a key consideration in the evaluation.
The service provider must be ready by November 23, 2009.

RFP Process

This section outlines the RFP process, describing how to respond to the RFP, and how the responses will be evaluated.

Answer format

RFP responses must follow the format described in the RFP Response Template set forth at the end of this document.

The Response Template includes a detailed list of requirements that must be addressed . Each requirement should be addressed in a section whose number corresponds to the number in the Response Template. If additional sections are required, e.g. to provide more details, they must be added under the relevant subsection so as to preserve the numbering system.

RFP Submission

Responses must be submitted in electronic form by November 2, 2009 at 8 a.m. Eastern time to Deirdre Leahy, dleahy@isda.org, 212-901-6021.

Evaluation

The RFP responses will be evaluated by the ISDA Portfolio Compression RFP selection committee that consists of Credit Steering Committee members.

The respondents must be prepared to present their proposal to the committee the week of November 2.

The decision on the selected service provider is expected the week of the presentations

If we receive more than 5 responses, the selection committee can decide to limit the number of presenters to 5 based on the written submission.

Selection criteria

The selection of a service provider will be made in the sole discretion of the selection committee.

Exhibit A: RFP Response Template

RFP Respondents must complete the template set forth on the following pages.

Executive Summary

Summarize key aspects of the solution, such as:

- service provider
- functionality provided
- delivery schedule
- cost
- business arrangements

The Executive Summary should be limited to 1 page.

Service Provider Profile

This section provides information about the service provider's organization to assist in assessing its capabilities for addressing the MSA requirements.

Organizational and Financial Information

Legal Name, Structure, Domicile

Identify the legal entity that will be providing the services.

Ownership

Identify the ownership structure.

Years in operation

List when established.

Employees

Provide information about the number, and positions of employees.

Clients

Provide information about the number and types of clients.

Financial Metrics

If publicly held, provide the latest available audited financial statements. If privately held, provide information about revenue and capitalization.

Key staff

Identify and provide a brief summary of skills and experience for the individuals filling the following positions:

- CEO/MD - overall business manager of the service provider organization that will lead the response.
- Other key executive management - where relevant, identify other key executives important to the response.
- Engagement manager - identify the person who will act as the overall manager of the relationship and of the engagement.
- Technology lead - identify the person who will act as the technology lead for delivering the required technology platform.
- Operations lead - identify the individual who will be responsible for operating the system and delivering client service.
- Other staff - if there are other specific individuals important to evaluating the RFP response, please identify them.

Experience and Skills

Summarize the organization's experience and skills in areas relevant to the RFP:

Credit derivatives marketplace

Describe the organization's background in supporting the credit derivatives marketplace, including in particular services related to portfolio reconciliation and reduction exercises such as early terminations.

Inter-firm communications

Describe the organization's background in supporting communications about financial transaction between financial industry participants. In particular, identify services that have been provided and the number and types of clients for which these services have been provided.

Proposed Solution Overview

Provide a qualitative overview of the solution to be provided, as an aid for evaluators in understanding the proposed solution.

High Level Architecture

Describe the overall application architecture, covering points such as:

- How will information be submitted to the service;
- How will information be retrieved from the service; and
- How and where will be service be hosted.

Description of Key Functionality

Summarize the functionality that will be delivered, with a view to aiding understandability. Please do not repeat the detailed information provided in subsequent sections. Instead, please discuss topics such as:

- how the supplied functionality relates to previous or current offerings
- particular strengths or differentiators of the offering

Phasing/Timing

Provide information on the timing of the solution.
Provide information on the time required to complete a full compression cycle.

Functionality

Please describe how each of the following requirements will be met.

Data Input and Retrieval

Capture of portfolio reconciliation requests by participants

- How will the service provider determine which credit entities, maturities, etc. will be covered during each compression cycle?
- How will the service provider identify inconsistencies in the populations requested to be compressed?
- How will the participants specify any constraints on the compression process? (e.g. maximum increase in exposure to a counterparty)

Capture of internal booking information

How will the service provider capture information about the internal booking of deals so that it can propose rebalancing transactions in order to maintain risk profiles by trading desk or other internal entity?

Retrieval of information from the Trade Warehouse

How will the service provider retrieve information from the DTCC Trade Information Warehouse?

Calculations

Aggregation

How will the service provider determine which trades can be aggregated for the purpose of compression?

Reporting

Compressed Portfolio

How will the service provider report back recommendations on the trades to eliminate and the replacement trades?

Analytical Reporting

What information will the service provider report back on the trades to be compressed to allow participants to:

- Verify that the replacement trades have a identical risk profile to the original portfolio,
- Perform internal transactions to maintain internal risk profiles?
- Report changes in counterparty exposure

Execution

Proposal Approval

What mechanism will the service provider use to:

- Capture approval to proceed by each participant
- Notify all participants when approval has been obtained from all necessary parties?

Technology and Operations

Technical Architecture

Please describe the technical architecture used by the service provider, including:

Overall Description of Architecture

Briefly describe the overall technical architecture used by the service provider.

Client Technical Requirements

List the client user interface requirements (operating systems, browser versions, memory/cpu requirements, etc.), client technologies used (e.g. HTML, JavaScript, ActiveX, XML, etc.)

Data Submission Technology

Describe the technical requirements for clients to submit data to your service (operating system constraints, network requirements, middleware requirements, security requirements, software tools and versions, etc.)

Server Infrastructure.

Briefly describe the central server technology infrastructure (OS, hardware type, DBMS, application/web server technology, programming language(s), hosting/firewall architecture, use of clustering or high-availability features, etc.

Capacity Requirements

Set forth below are the anticipated capacity requirements for the proof of concept and the first set of portfolio compressions:

Participating institutions	Approx 10
Compression cycle frequency	All portfolios in 6 to 8 weeks – cycles to be proposed by the service provider
Trades per compression cycle	1MM trades
Portfolios per compression cycle	

Technology Limitations

Describe any technological or architecture considerations in connection with your approach that would prevent these requirements from being met.

Technology Platform and Scaling

Which technology platform (OS, DBMS, messaging middleware, application server, etc) will be used to meet the requirements set forth above? How will this platform be scaled if additional capacity is required?

Testing Methodology

How do you propose to test/demonstrate that the performance requirements can be met, prior to the first compression exercise?

Connectivity

Describe connectivity technologies/options that will be provided, such as:

- FTP
- HTTP file upload/download
- Web services
- MQ messaging
- Proprietary connectivity technologies

For each supported connectivity option, please identify the supported software versions, operating systems, etc.

Security

Access Control

Describe the mechanisms that will be used to secure the following:

- Online user access to a GUI if provided
- Bulk/message data submission to the central server.

How will access be granted and revoked?
Describe the type of confidentiality controls that will be put in place to ensure that data cannot be retrieved by other firms.

Data Retention

Longevity

Describe current data record retention standards used.

Retrieval Speed

Describe current access conditions if applicable.

Expandability

Describe how the internal technology architecture is arranged to facilitate functional requirements evolution. What types of changes are anticipated and how has the system been architected to simplify these kinds of changes?

Client/User Support

Describe the support mechanisms that will be provided, such as:

- User support team constitution and support hours.
- Support mechanisms that will be provided, e.g.
  - Telephone
  - Email
  - Chat or other web-based real-time support
  - Other
- Service level commitments
- Problem tracking processes and procedures
- Issue escalation levels and procedure.

Business Issues

Contractual Relationships

- Do you have any limitations in the types of entities that you can contract with and/or provide service to?
    - Industry organizations (ISDA)?
    - Major banks/dealers?
    - End users of derivatives?
        - Traditional asset managers?
        - Alternative investment managers
    - Industry non-profit utilities?
    - Industry for-profit utilities?
- Do you have any constraints in the number of entities that you can contract with?

Legal Framework

- What type of legal agreement/framework would you recommend using?
- Provide an example contract/agreement if possible. If different agreements would be used for different types of participants, please provide an example of each type.

Liability and indemnity

- Provide proposed contractual indemnity provisions if any.

Cost/Revenue Model

Provide indicative pricing for the service.

How would the service be paid for?

a) Would there be any one-time fixed charges per participating institution?
b) Would there be any recurring/periodic charges/subscription fees per institution?
c) Would there be any per-transaction service fees?

What would the initial (if any) and ongoing cost be for each of the following user scenarios:

a) A broker/dealer bank that participates in 10 compression cycles with a total of 1,000,000 transactions during a 2 month period.
b) A large end user/hedge fund that participates bilaterally in 5 compression cycles with a total of 100,000 transactions during a 2 month period, submitting all trades electronically.

Please tabulate the costs for each scenario.

If there are several possible charging models that you can envisage, please list each possible model together with a recommendation or preferred approach. If you need to

make additional assumptions to provide all inputs for your charging model (e.g. the number of messages required per transaction), please document those assumptions.

Time to deliver

ISDA requires service provider readiness by November 23, 2009.
Provide details on your ability to be ready on the above date.