

ISDA 24<sup>th</sup> Annual General Meeting, Beijing  
Remarks by Robert Pickel,  
ISDA CEO and Executive Director  
April 22, 2009

Good morning. I'm Bob Pickel, ISDA's chief executive officer.

For all of you who have been to one or more of our 23 previous annual meetings, welcome back and welcome to Beijing. And for those of you who are joining an annual meeting for the first time, including our many members from here in China, a very special welcome. We hope to see you at future annual meetings.

For those of you who were able to join us last evening for the welcoming dinner hosted by ICBC, I believe you got a good taste of the warmth and creativity of this country and its people. This evening our event sponsored by Barclays at Aqua Beijing will give you another view of this dynamic country as well as an opportunity to renew friendships.

We know that the financial markets are going through some very challenging times right now, and we have tried to put together a conference program that responds to your needs and interests. You have traveled from all over the world, and we are confident you will find the trip well worth it—and enjoyable too.

Over the next few days, we'll hear from senior policymakers in China, top executives at a number of firms and leaders in the derivatives industry. We'll

touch on a number of key issues: public policy, legal, operational, credit and other concerns as well as the current state and future direction of our business.

In a way, Beijing is the ideal place to hold these discussions.

- China, like the derivatives industry, has made substantial progress in a relatively short period of time.
- But even with the great strides that we have both made, our business, like this great country, continues to have great potential.
- Realizing this potential requires that we work together to further build out our industry's infrastructure. It's essential that derivatives activity be conducted within an efficient, prudent framework, and it's up to us to get this work done, something we have been doing for going on 25 years.

Now, I don't want to overdo the analogies here. But I do want to stress how important we believe China will be in the future of the derivatives industry. It was one of the key drivers behind the Association's decision to open our Asia-Pacific regional office in Hong Kong, as well as to significantly increase the size and talent of our staff in the region.

Today, though, it's not just in China that we need to build a more visible profile. The financial crisis rocking the global markets has had quite a spillover effect on

our business. Credit default swaps, as you know, have come in for a very hard time. So far, they have not actually been blamed for causing the crisis, but they are at times cited as having made the problem worse.

So, how are we at ISDA responding?

On the way over here, I came across a business story in the New Yorker magazine that illustrates the choices we face at this critical juncture. Let me read an excerpt from that article.

“In the late nineteen-twenties, two companies—Kellogg and Post—dominated the market for packaged cereal. It was still a relatively new market: ready-to-eat cereal had been around for decades, but Americans didn’t see it as a real alternative to oatmeal or cream of wheat until the twenties. So, when the Depression hit, no one knew what would happen to consumer demand. Post did the predictable thing: it reined in expenses and cut back on advertising. But Kellogg doubled its ad budget, moved aggressively into radio advertising, and heavily pushed its new cereal, Rice Krispies. (Snap, Crackle, and Pop—the cartoon characters who are the symbol of Rice Krispies—first appeared in the thirties.) By 1933, even as the economy cratered, Kellogg’s profits had risen almost thirty per cent and it had become what it remains today: the industry’s dominant player.”

Let me sum it up this way. In the face of a crisis, you have the choice of retrenchment—or to add a little snap, crackle and pop.

In the derivatives industry, we too have that very choice as we weather the current financial crisis. On the one hand, we could scale back on our efforts and activities, and then try to pick them up when conditions improve. Or we could realize that now is precisely the time that we need to maintain our resolve and continue investing for tomorrow.

It's clear that the latter approach is what our members, as well as policymakers and others, want and need from us today. Rest assured, we at ISDA will look across our organization for ways to do things more efficiently and cost-effectively. It's incumbent on all companies to operate as productively as possible. But at the same time, it's important that we maintain our long-term vision and approach.

So in this environment, what do we see as our key areas of priority?

Clearly we need to continue to engage with policymakers in key jurisdictions around the world. This includes, of course, the national legislators and supervisors in countries where our members do business. It also includes organizations such as the G-20's Financial Stability Board, which we believe will play an increasingly important role as per its broader mandate to promote financial stability.

Our goals in these discussions are clear: separate myth from reality, underscore the risk-transfer benefits that derivatives offer and work together with policy makers to address the very real concerns that have been aired in recent months.

One of the biggest concerns involves our industry's infrastructure. Clearly this is an area to which our members and we have devoted considerable resources...and it is going to be one we all must remain focused on.

Given the pace of activity these days, it's pretty easy to overlook the scope and scale of what we have accomplished in recent years. Not too long ago, for example, confirmation backlogs were a pressing issue. Novations were a huge concern. More recently, credit events were thought to be a test for the industry. I can remember any number of skeptics in recent years questioning the viability of our auctions in different scenarios—big credit events, multiple credit events, European credit events, sovereign credit events. Well, since September, we have had them all—and the auctions have worked.

Throughout these challenges, the industry has marshalled its energy and talent through ISDA to take constructive action that strengthened the infrastructure of our industry. The success of our Big Bang Protocol—with over 2,000 adhering parties—speaks volumes about the progress we are making.

We know, however, that our work must continue. High on our list is ensuring the smooth and effective functioning of the newly formed Credit Derivatives Determinations Committee. It has already had its first meetings, and we are confident that we have forged a solution that will have the support of all market participants.

Our desire to ensure that our efforts include the input of the full range of market participants is not just reflected in the activities of our committees. It is now reflected at the highest levels of your organization—the ISDA Board. In February we added representatives of three non-dealer firms to the Board. We are also forming a larger group of senior buy-side firms and individuals to provide input to the ISDA Board.

Another committee that will be central to delivering on industry commitments is the recently-formed ISDA Board Oversight Committee, chaired by our Board member from Morgan Stanley, Steve O’Connor. This Committee will lead the efforts of essential industry groups, such as the Operations Management Group, in interaction with regulators, led by the New York Federal Reserve Bank. These industry efforts are focused on the infrastructure issues that have been a central part of the regulatory dialogue since 2005.

The roots of the financial crisis are in the U.S. housing sector, and the efforts of the Obama administration to address the crisis are rightly attracting a lot of attention. As a global business and as an international organization, however, we must engage policy makers and business leaders across the globe.

In Europe, we are working with a group of major banks who have made commitments to the European Commission to develop a CDS clearing solution in Europe.

We are leading industry efforts to work with the international banking regulators in Basel as they consider modifications to regulatory capital requirements. We understand the need for more capital in the system. But we also believe that, in the effort to increase capital, we must not disadvantage tools that are essential to effective risk management, tools that will be important for companies of all types to have readily available and cost-effective as we come out of this recession.

And our efforts here in China and throughout the Asia Pacific region continue in full. In particular, the past year has produced fruitful dialogue with the regulators here in China to address documentation and netting issues. We look forward to the remarks from PBOC Deputy Governor Yi and CBRC Chairman Liu, whose organizations have been important partners for us in these efforts.

With all that we are doing on the credit derivative front and in response to the financial crisis, we should not lose sight of the essential, ongoing work of the Association in critical areas like documentation, netting, collateral and accounting. These areas are, in many ways, the source of our strength as an industry and as the industry association, and we must bolster our efforts in order to preserve and expand these important parts of the infrastructure. A central part of our efforts in these areas are the educational programs we run around the globe. As training budgets are trimmed, we have adapted and tailored our offerings to the demands and requirements of the times, with targeted sessions and online offerings. We will

continue to get the word out about the benefits of privately negotiated derivatives through whatever channels possible.

As you can see, ISDA continues to maintain an ambitious agenda. This reflects our industry's need and its desire to invest in the business during good times and bad. It's through this investment that we strengthen how we operate and set the stage for the next round of growth and innovation.

Given our location this year, it's hard not to think about growth and innovation. That's why I think Beijing is an excellent location this year: it reminds us of the need to maintain a long-term view amidst the rush of today's events.

None of this, of course, would be possible without your support. The contributions of our member firms – particularly the energy and talents of all those who participate in our committees and our activities – are what sets ISDA apart and they are what drives ISDA forward. Thank you for your on-going commitment and support for this organization and our talented staff.

Now to the business at hand.

ISDA is very honored to have as our first speaker today one of the most senior financial and monetary policymakers in China. Yi Gang is Deputy Governor of the People's Bank of China. Educated in the United States, Deputy Governor Yi earned his doctorate in economics from the University of Illinois, right next to my

home state of Missouri. He was a tenured professor of economics at Indiana University, and in 1994 joined the faculty of Peking University.

Deputy Governor Yi's government service began in 1997 when he joined the Chinese central bank as deputy secretary-general of the monetary policy committee. Over the next decade he assumed positions of increasing responsibility. We are delighted that he has agreed to speak to us today. Please join me in welcoming Deputy Governor Yi to our annual general meeting.