

ISDA® Master Agreement Negotiation Survey

November 2006

The ISDA Master Agreement Negotiation Survey collects and reports data on the performance of International Swaps and Derivatives Association member firms in negotiating documentation for over-the-counter derivatives. ISDA conducts the Survey with two main objectives in mind: First, derivatives market participants can use the Survey results as benchmarks against which to measure their own negotiation performance. Second, documentation managers seeking to improve performance can use the Survey results to support requests for additional staff and other resources.

ISDA conducts the Master Agreement Negotiation Survey on an occasional basis. The [first version](#) of the Survey appeared in April 2004; the 2006 Survey is the second version. Appendix 1 lists the Survey questions. The 2006 Survey incorporates the same questions as were in the 2004 Survey, but also covers performance in completing credit support documents.

A total of 181 ISDA member organizations participated in the 2006 Survey (Appendix 3). Of the total, 97 were Primary Members, 63 were Subscriber Members, and 21 were Associate Members (Chart 1). Table 1 shows the breakdown of respondents by organization type. Just over half the respondents were banks or broker/dealers; in second place were roughly equal numbers of corporates, energy or commodity trading firms, government agencies, and hedge funds. The “Others” category was a diverse group: the largest component was law firms (19), and the rest included asset managers, building societies, government sponsored entities, advisors of various description, and a variety of other entities. All responses are treated as confidential, and only aggregate results are reported.

Chart 1
Survey respondents by membership type

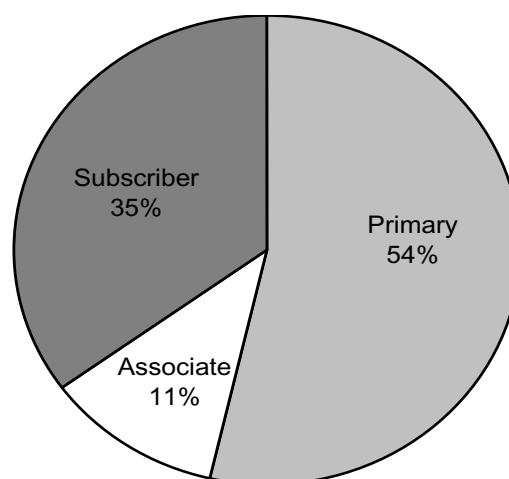


Table 1
Survey respondents by organization type

	Number	Percent
Bank/Broker-dealer	95	52
Corporate	9	5
Energy/Commodity trading firm	9	5
Government agency	8	4
Hedge fund	9	5
Institutional investor	4	2
Insurance company	3	2
Mutual fund	1	1
Other	43	24
Total	181	100

Summary of results

ISDA Master Agreement negotiation times. The first question concerns benchmark negotiation times for ISDA Master Agreements, not including Credit Support Annexes. As in the 2004 Survey, percentages reported for each time bucket vary widely across respondents. Further, extreme results of less than 30 days and more than one year are not unusual. The consequence of such dispersion is that average results by themselves provide little meaningful information. To avoid this problem, Chart 2 shows median negotiation times because they are less influenced by extreme observations.¹ Appendix 2 shows both means and median negotiation times for each time bucket.

Chart 2 - Distribution of negotiation times reported by all respondents

Median percents by time bucket

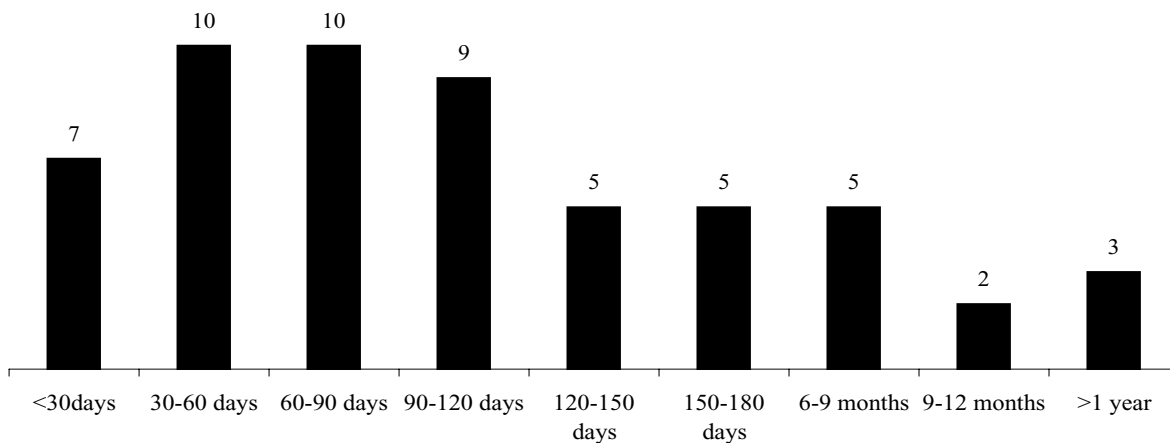


Chart 2 shows that most members take between 30 to 150 days on average to come to an agreement. The leftward skew of the distribution suggests that members are more likely to execute the ISDA Master Agreement in the period of 30-90 days. *Because the chart shows medians instead of means, the percentages for individual time buckets will not sum to 100.*

¹ Statistically, high standard deviations around mean estimates imply significant dispersion of the results. Median is an alternative measure of central tendency; it represents the midpoint of the sample, that is, the value for which 50 percent of observations are higher and 50 percent are lower. The median is less biased than the mean in the presence of significant outliers.

Comparison with 2004 results. The relative performance between the two surveys is sensitive to the choice of measure, although the reader should bear in mind that the 2006 sample is almost twice as large as the 2004 sample. On the one hand, using medians (Chart 3) suggests that execution was somewhat more rapid in 2004 than in 2006. On the other hand, using cumulative *mean* completion times (Chart 4) suggests more rapid execution in 2006. Cumulative mean percents completed show, for example, that 33 percent of ISDA Master Agreements are completed within 60 days and 48 percent within 90 days; the corresponding 2004 results were 26 percent and 46 percent.

Chart 3 - Comparison of negotiation times between 2004 and 2006 Surveys, full sample
Median percent by time bucket

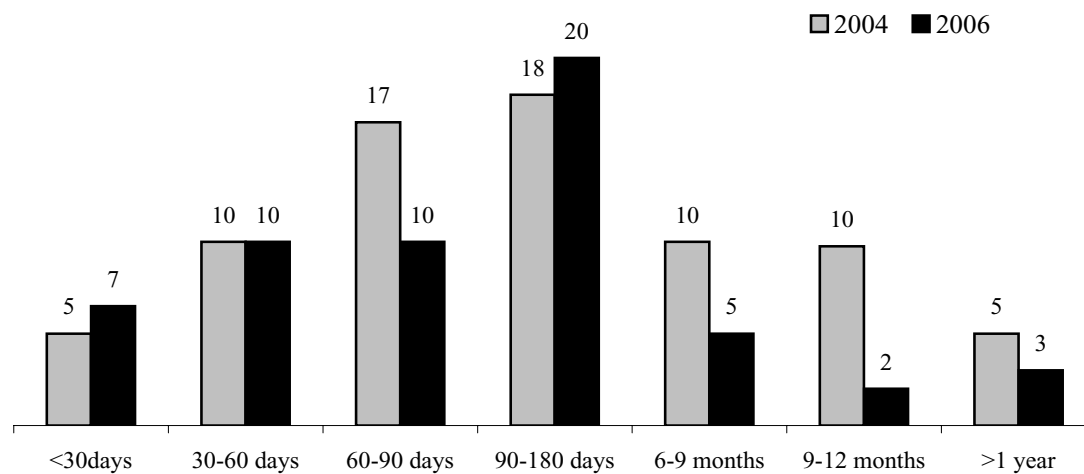
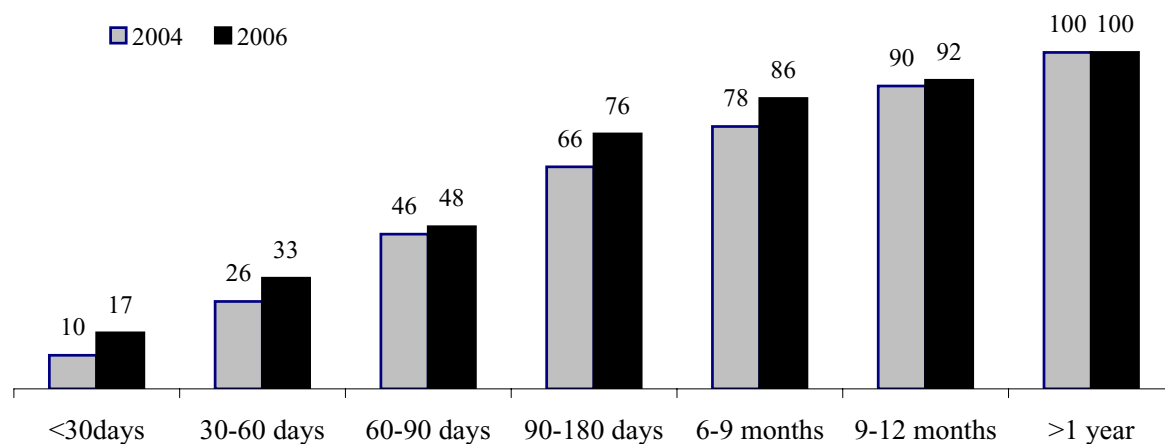


Chart 4 - Cumulative mean percent of agreements executed by given time buckets, full sample



Survey results by respondent membership type. Chart 5.1 presents median completion times according to the three ISDA membership categories. The results show faster completion times for Associate Members. Associate Members constitute only 11 percent of the full sample, however, so the results for Associate Members might not be representative.

Chart 5.1 - Negotiation times by membership category

Median percents by time bucket

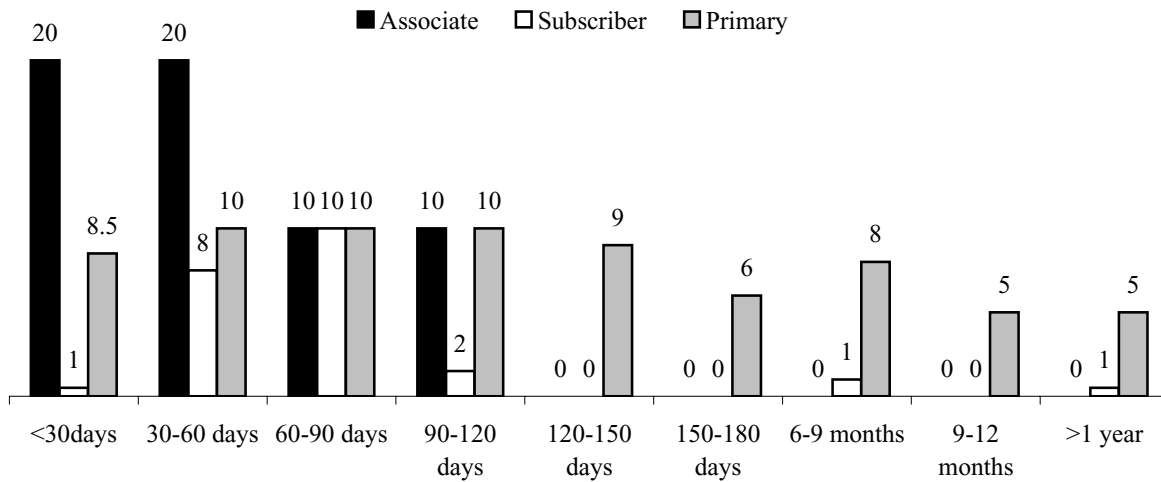
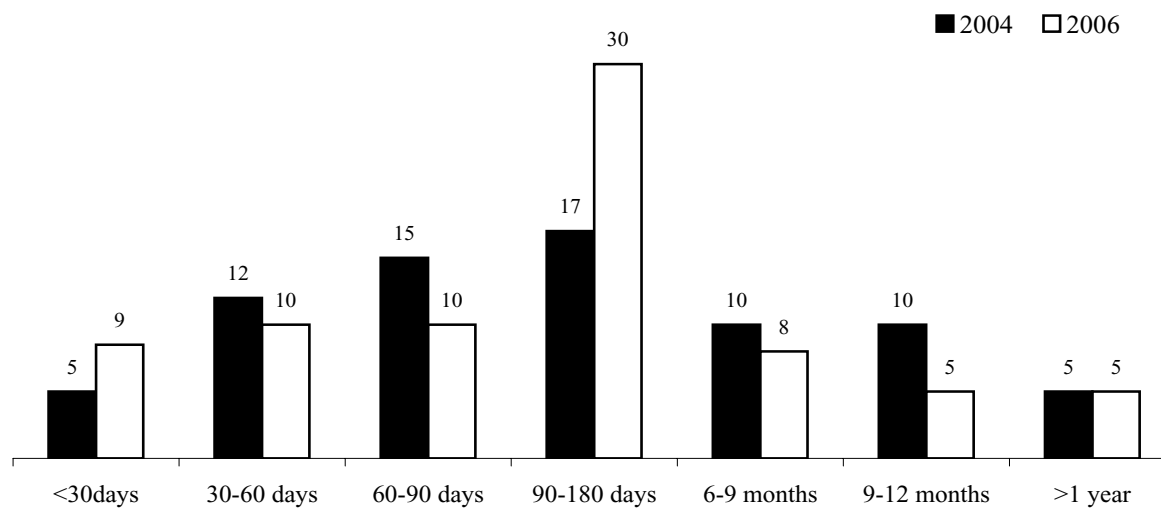


Chart 5.2 compares Primary Member negotiation times for the 2004 and 2006 Surveys. The chart suggests a more “fat-tailed” distribution in 2006 because of higher median percentages in the lower time categories as well as increased concentration in the middle of the distribution.

Chart 5.2 - Comparison of negotiation times between the 2004 and 2006 surveys, Primary Members

Median percents by time bucket



Simultaneous negotiation of the ISDA Master Agreement and the Credit Support Annex. Chart 6 shows the distribution of negotiation times for those firms that negotiate the ISDA Master Agreement and the Credit Support Annex at the same time. The results for simultaneous negotiation are virtually identical to those for separate negotiation (Chart 2).

Chart 6 - Negotiation times for ISDA Master Agreement and Credit Support Annex, full sample
Median percent by time bucket

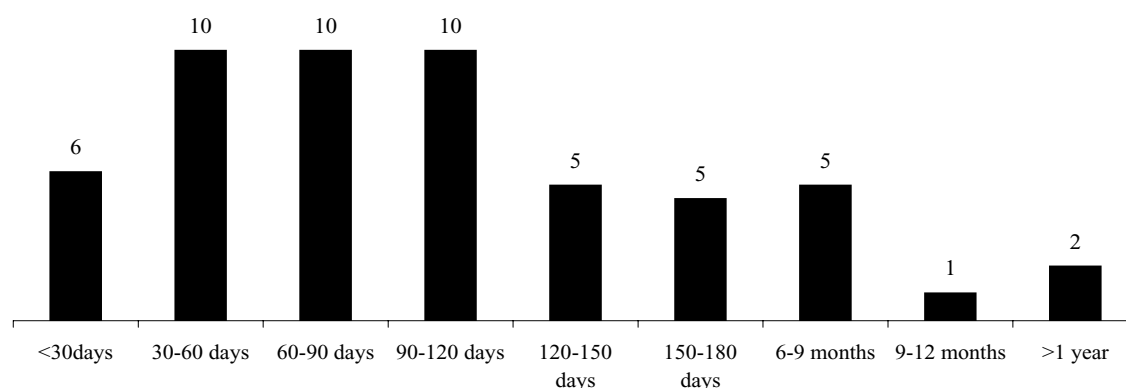


Table 2 shows the percentage breakdown, by respondent category, of entities that negotiate the ISDA Master Agreement and the Credit Support Annex simultaneously. Overall, more than 68 percent of respondents negotiate the Agreement simultaneously with the Credit Support Annex; all responding hedge funds report that they do so.

Table 2 - Simultaneous negotiation of ISDA Master Agreement and Credit Support Annex
Median percents, by entity type

Respondent category	Percent
Hedge Fund	100
Energy/Commodity Trading Firm	89
Government Agency	75
Institutional Investor	75
Other	75
Corporate	67
Insurance Company	67
Bank/Broker-Dealer	60

Negotiation times by respondent type. Table 3 shows the breakdown of results by respondent type and time bucket. In order to better show the differences across respondent categories, Chart 7 converts the Table 3 results into average times weighted by time bucket midpoints. Buy-side respondents such as insurance companies, institutional investors, and hedge funds report lower than average negotiation times; mutual funds and government agencies, in contrast, report the highest. Corporates, banks, and energy firms occupy the middle ground.

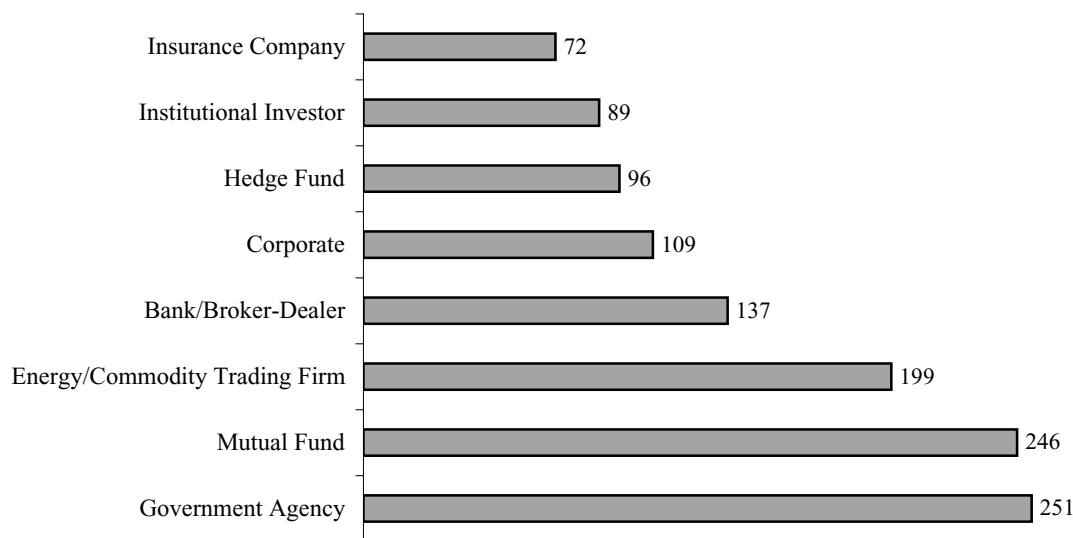
Table 3 - Distribution of negotiation times reported by firm types, full sample

Median percent by time bucket

	less than 30 days	30 to 60 day	60 to 90 days	90 to 120 days	120 to 150 days	150 to 180 days	6 to 9 months	9 to 12 months	more than 1 year
Bank/Broker-Dealer	9	10	10	10	8	6	8	5	5
Corporate	40	5	10	2	3	1	8	1	0
Energy/Commodity Trading Firm	0	2	5	10	20	10	20	10	10
Government Agency	0	0	0	1	0	0	5	8	20
Hedge Fund	0	40	18	0	0	0	0	0	0
Institutional Investor	15	20	40	5	0	0	0	0	3
Insurance Company	10	40	30	10	0	5	2	0	0
Other	10	13	11	9	0	0	0	0	0

Chart 7 - Distribution of negotiation times reported by firm types, full sample

Weighted average



Negotiation times by counterparty type. The Survey asked respondents if certain types of industry participants require more or less negotiation times than the average for all counterparties. Table 4 on the following page shows the median percentages reported by counterparty type and time bucket. The results show that, for example, 63 percent of respondents report that Bank/Broker Dealer participants require the same time as their counterparty base as a whole and 64 percent report that Government Agencies require more time.

Table 4 - Counterparty categories likely to require greater or less than average negotiation time*Median percentages*

	<u>less</u>	<u>same</u>	<u>more</u>
Bank broker Dealer	14	63	23
Corporate	26	42	32
Energy CTF	13	42	46
Government Agency	11	23	67
HedgeFund	18	36	46
Institutional Investor	16	53	31
Insurance Company	5	49	45
Mutual Fund	10	46	44
SPV or SPE	30	33	37
ISDA MA CSA other	35	22	43

Delays in executing Master Agreements. The Survey asked respondents to select the three main reasons for failing to execute the ISDA Master Agreement within 180 days; see Appendix 1 for the alternative reasons given in the questionnaire. Table 5 shows that the principal reported reasons are failure of counterparty to respond and credit-related issues. The Survey also asked what actions firms take in the event of such delays.

Table 5 - Reasons why Master Agreements might not be executed within 180 days*Median percentages*

Failure of counterparty to respond	82
Credit-related issues	59
Additional Termination Events	48
Cross-default provisions	24
Other	20
Lack of internal staff experience	19
Unsatisfactory legal opinions	9
Calculation Agent	7
Cure period modifications	3
Valuation issues	3

Table 6 shows that, in order to resolve delays, firms are most likely to establish contacts at a more senior level or to involve credit personnel. Among those that responded “Other,” the most frequent explanation was to seek front office or other business involvement in resolving the impasse.

Table 6 - Actions taken when Master Agreements are not executed within 180 days*Median percentages*

Negotiations cease	14
Contact is established at a more senior level of the firm and the counterparty	32
Credit personnel become involved in the negotiation	26
Other	21

Trades without an executed Master Agreement. The final Survey question asked respondents whether they allow trades prior to executing a Master Agreement. In addition, those that allow trading subject to restrictions were asked to describe the common restrictions imposed. Table 7 breaks out the results. Subscriber Members are the least likely to allow trades prior to execution of an agreement: 65 percent do not allow trading prior to execution at all; an additional 26 percent allow it only subject to restrictions. Primary Members are more likely to allow trading prior to execution of an Agreement, but normally place restrictions on such trades.

Table 7 - Policies regarding trades prior to Master Agreement execution

Percents

	No	Yes	Yes - restricted
Primary	18	22	60
Subscriber	65	10	26
Associate	26	26	47

The restrictions listed by respondents are too diverse to summarize easily, but common conditions include the following: Use of ISDA Long-form Confirmation; commitment by the counterparty to start negotiations; trades are subject to credit or senior management approval; vanilla trades are allowed with highly-rated or financial institution counterparties only; and, trades are subject to break clauses.

Appendix 1: Survey questions

What percent of your firm's ISDA Master Agreements (not including the ISDA Credit Support Annexes) are executed within the following time categories?

<30 days 30-60 60-90 90-120 120-150 150-180 6-9 months 9-12 mo >1 year

Does your firm negotiate its ISDA Master Agreement simultaneously with its ISDA Credit Support Annex? If "Yes", what percent of your firm's ISDA Master Agreement and ISDA Credit Support Annex are executed within the following time categories?

<30 days 30-60 60-90 90-120 120-150 150-180 6-9 months 9-12 mo >1 year

In your execution of the ISDA Master Agreement and/or ISDA Credit Support Annex with your counterparty, are there certain sectors of industry participants that are likely to require less, the same or more negotiation time as compared with your counterparty base as a whole?

Bank/broker-dealer

Corporate

Energy/Commodity trading firm

Government agency

Hedge fund

Institutional investor

Insurance company

Mutual fund

SPV/SPE

Other (please specify)

If an ISDA Master Agreement (not including the ISDA Credit Support Annex) is not executed within 180 days after the initiation of negotiations, what are the top three reasons for this?

Additional Termination Events

Cross-default provisions

Cure period modifications

Valuation issues

Credit-related issues

Calculation Agent

Unsatisfactory legal opinions

Failure of counterparty to respond

Lack of internal staff experience

Other (please specify)

What actions does your firm typically take as a consequence?

Negotiations cease

Contact is established at a more senior level of the firm and the counterparty's firm

Credit personnel become involved in the negotiation

Other (please specify)

Do you allow derivative trades with a counterparty prior to executing an ISDA Master Agreement?

Yes

No

Yes, subject to restrictions (explain in text box)

Appendix 2: Summary statistics by membership category

Percents

	< 30days	30to60 days	60to90 days	90to120 days	120to150 days	150to180 days	6to9 months	9to12 months	>1 year
<i>Full sample</i>									
Median	7	10	10	9	5	5	5	2	3
Mean	17	16	15	10	9	9	11	5	8
Standard deviation	23	18	17	13	11	12	16	8	16
N = 181									
<i>Primary members</i>									
Median	9	10	10	10	9	6	8	5	5
Mean	15	14	14	11	11	11	9	6	8
Standard deviation	20	14	14	11	12	13	10	8	11
N = 97									
<i>Subscriber members</i>									
Median	1	8	10	2	0	0	1	0	1
Mean	13	17	17	8	6	7	15	5	11
Standard deviation	22	23	22	16	10	11	24	9	23
N = 63									
<i>Associate members</i>									
Median	20	20	10	10	0	0	0	0	0
Mean	33	23	13	10	6	5	5	2	3
Standard deviation	31	17	11	10	8	11	8	5	5
N = 21									

Appendix 3: Firms responding to the 2006 ISDA Master Agreement Negotiation Survey

Aareal Bank AG	Chuo Mitsui Trust and Banking Company, Limited
Abbey Financial Markets	Citigroup, Inc.
Agriculture Bank of China	Commerce International Merchant Bankers Berhad
Alexandra Investment Management	Commonwealth Bank of Australia
AllianceBernstein	Confederación Española de Cajas de Ahorros
Allied Irish Banks	ConocoPhillips
American Express	CQS
American Honda Finance Corporation	Credit Suisse
AMVESCAP	Credit Suisse (Europe)
Anglo Irish Bank Corporation	Daiwa Securities SMBC Co. Ltd.
Australia New Zealand Bank	Danske Bank A/S
Aozora Bank	DBS Bank Ltd
AQR Capital Management	DEPFA BANK plc
Banca Intesa SpA	Deutsche Bank AG
Banca Monte dei Paschi di Siena SpA	Dewey Ballantine LLP
Banca Nazionale del Lavoro S.P.A.	DLA Piper Rudnick Gray Cary UK LLP
Banco Comercial Português, S.A.	DnB NOR Bank ASA
Bank BPH SA	Dow Chemical Company
Bank of America	DZ Bank AG Deutsche Zentral-Genossenschaftsbank
Bank of Lithuania	EFG Eurobank Ergasias SA
Bank of Mitsubishi-Tokyo UFJ Bank. Ltd	Eksportfinans ASA
Bank of Montreal	Elektrizitäts-Gesellschaft Laufenburg AG
Bank of New York	Erste Bank der oesterreichischen Sparkassen
Bank of Nova Scotia	Export Development Canada
Bankgesellschaft Berlin AG	Fannie Mae
Banque Degroof S.A.	Federal Home Loan Bank of Boston
Barclays Bank	Federal Home Loan Mortgage Corporation (Freddie Mac)
Bear, Stearns & Co. Inc.	Financial Guaranty Insurance Company
BlueBay Asset Management Limited	FMC Corporation
BNP Paribas	Fortis Bank NV/SA
Borden Ladner Gervais LLP	Fraser Milner Casgrain
BP Oil International Limited	Goldman Sachs & Company
Britannia Building Society	Government of Singapore Investment Corporation Pte Ltd
British Energy Power & Energy Trading Limited	Governor and Company of the Bank of Ireland
Brown Rudnick Berlack Israels LLP	HBK Investments L.P.
Business Development Bank of Canada	Hess Energy Trading Company, LLC
Caisse Centrale Desjardins	HSBC Bank
Caisse de dépôt et placement du Québec	HSH Nordbank AG
Caixa d'Estalvis de Catalunya	ING Belgium NV
Canada Mortgage and Housing Corporation	Inter-American Development Bank
Carnegie Investment Bank AB	Int Bank for Reconstruction and Development
Ceska sporitelna	International Business Machines
Chatham Financial Corp.	JD Capital Management LLC
Chevron	Jones Day
Cheyne Capital	JPMorgan Chase Bank, N.A.

Jyske Bank A/S	Public Sector Pension Investment Board
Landesbank Hessen-Thüringen Girozentrale	Purrington Moody Weil LLP
Latham & Watkins LLP	Queensland Treasury Corporation
Laurentian Bank of Canada	Rand Merchant Bank
L-Bank	Reed Smith
Lehman Brothers Inc.	Reliant Energy, Inc.
Lloyds TSB Bank PLC	Republic of Finland
Louis Dreyfus	Resona Bank, Ltd
M&G Investment Management Limited	Royal Bank of Canada
Macquarie Bank	Royal Bank of Scotland plc
Malayan Banking Berhad	RWE Trading GmbH
Man Financial Limited	Sachsen LB / Landesbank Sachsen
Marval, O'Farrell & Mairal	Salans
McClure Naismith	Sampo Bank Plc
McDermott Will & Emery LLP	Schroders Plc
Minnesota Life Insurance Company	Sempra Energy Trading Corp.
Mitsubishi UFJ Securities Co., Ltd	Seward & Kissel LLP
Mitsubishi UFJ Trust and Banking Corporation	Shinkin Central Bank
Mizuho Corporate Bank, Ltd.	Shinko Securities Co., Ltd.
Morgan Stanley	Shinsei Bank, Limited
Moscow Narodny Bank Limited	Sigma Finance Corporation
N.V. Bank Nederlandse Gemeenten	Slaughter and May
Natexis Banques Populaires	Southwest Gas Corporation
National Australia Bank	Standard Chartered Bank
National Bank of Canada	Standard Life Investments
National Bank of Greece SA	State Board of Administration of Florida
Nedbank Limited	State of the Netherlands, Ministry of Finance (DSTA)
Newshore Financial Services Inc.	Stroock & Stroock & Lavan
Nexen Inc	Suncorp-Metway Ltd
Nikko Cordial Securities Inc.	Susquehanna Internaitonal Group, LLP
NM Rothschild & Sons Limited	Svenska Handelsbanken AB (publ)
Nomura Securities Co., Ltd	Swedbank
Norddeutsche Landesbank Girozentrale	Toronto-Dominion Bank
Norinchukin Bank	Transnet Limited
NRW.BANK	Treasury Corporation of Victoria
Nationwide Building Society	Tudor Investment Corp.
Nykredit Bank A/S	UBS
Ontario Teachers' Pension Plan Board	Union Bank of California
Oversea-Chinese Banking Corporation Limited	United Overseas Bank Limited
Pacific Life Insurance Company	Watson, Farley & Williams
Parkcentral Capital Management LP	Webster Bank
Paulson & Co., Inc	Wellington Management Company, LLP
Pepper Hamilton LLP	Westpac Banking Corporation
Principal Global Investors, LLC	WongPartnership
Prudential Global Funding LLC	Yorkshire Building Society
	Zürcher Kantonalbank

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