ISDA 24th Annual General Meeting, Beijing
Remarks by Eraj Shirvani,
ISDA Chairman and Managing Director,
Head of Fixed Income for EMEA Region,
Credit Suisse
April 23, 2009

Thank you, Bob, for your kind introduction…and also for all your efforts in leading ISDA. You and your team continue to do a terrific job, and that includes organizing another first rate annual meeting. Let's take a minute to acknowledge your efforts.

On behalf of my colleagues on the ISDA Board, I want to thank all of you for your continued support of the Association and for attending our Annual Meeting this year. We in the financial markets are living in some very challenging times…and in these times it's more important than ever that we marshal our collective strengths and resources to work effectively together. So thank you again for playing an active role within ISDA.

As you know, this is ISDA's first annual meeting in Beijing. Given the country's continued economic growth and success, I suspect it will not be our last. China's role in the world's economy and its importance to the global financial system assures us that it will be a host to many more such events in the future.

It's interesting to note that China's transcendence as an economic power marks what we in finance might call a reversion to the mean. China has been the world's largest economy for 18 of the past 20 centuries. At its peak in the early 1800's, China's share of world output was about one-third of the global total.

In addition to its rich economic history, it goes without saying that China also has a history of innovation. To begin, there are the four great inventions of ancient China: paper, the compass, gunpowder and printing.

But closer to home, China can also lay claim to being the birthplace of paper currency. In the seventh century, there were local issues of paper currency. By 960, the Song Dynasty, short of copper for striking coins, issued the first generally circulating notes. This was, of course, the first paper money in history. It may also have been the first Chinese derivative.

So as you can see our business has been around a long time, in a lot of places, and our job here at ISDA is to make sure this continues.

Since its formation back in 1985, ISDA's mission has been to encourage the prudent and efficient development of the privately negotiated derivatives business. Let me assure you that it is a mission we are intensely and constantly focused on.
The Association continues to be extremely proactive on a broad range of issues affecting our business, working cooperatively with regulators and policy makers globally. Consider just a few of our major initiatives:

Most recently, there is of course the Big Bang Protocol. We're helping to increase certainty through hardwiring the auction mechanism into standard CDS documentation and providing a means to apply it to all outstanding trades. We've also broadened standardization and transparency through the implementation of common effective dates and standard coupons for CDS;

We've increased operational efficiency through industry-wide compression or 'tear-up' efforts. This has helped to significantly reduce the notional amount of CDS outstanding. According to the ISDA market survey we issued yesterday, CDS notional at year-end stood 2008 at about $38 trillion. That's down 29 percent from mid-year 2008 and it's down 38 percent from year-end 2007;

We've added centralized clearing as a counterparty risk management option for CDS, and committed to its use by major dealers in major centers. Moreover, we are exploring options to use central clearing for other asset classes. It goes without saying that central clearing is already well established for interest rate swaps;

We're enhancing market transparency through availability of trade information warehouse data, net funds transfer data, price and trade information, and pricing mechanisms; and

We've significantly tightened up novations practices.

Reflecting the continued evolution of our business and our Association, we've recently made some major changes within ISDA itself. We have, for example, expanded our board of directors to include buy-side firms. Three such firms are currently represented -- AXA Investment Managers, the D. E. Shaw group, and PIMCO – and I thank them for the time and energy they are putting into their new roles.

We've also included buy-side representation on our Credit Derivatives Determinations Committees. All of these changes help us to diversify member representation at senior levels and greatly assist us in addressing the perspectives of our significant buy-side membership.

The fact is, over the past 25 years, ISDA and the industry have created a robust infrastructure for the global swaps business. The growth, strength and success of the business could not have been achieved without it. And the financial system would now be weaker but for its existence.

As an example: consider the recent findings of the Senior Supervisors Group, which comprises senior financial regulators from seven key countries. This includes the Fed Board of Governors, the Federal Reserve Bank of New York, the OCC and the SEC in the U.S. It also includes Britain's FSA, France's Banking Commission, Germany's Federal Financial Supervisory Authority and supervisors from Japan, Switzerland and Canada.

In light of the 12 CDS credit events that occurred in the second half of 2008, the Supervisors Group assessed how well firms managed their credit derivatives activities and positions following a credit event.

According to their Report, the credit events in the latter half of 2008 were managed in an orderly fashion, with no major operational disruptions.

And I quote: "…the participants agreed that recent significant improvements in CDS infrastructure, risk management, operations, legal capabilities of firms, and communication all contributed to a credit event management process that resulted in the successful settlement of CDS trades."

Since the period covered by the report, we've seen an increase in the number of credit events and we're likely to see more as we go forward. There have been 17 so far in 2009, versus 12 in the second half of 2008. You know the names…Abitibi and Lyondell Basel, to name two…and by all accounts they have gone smoothly for market participants.

So it's clear that we've made progress…and we're continuing to make even more progress. But it's also clear that we have a lot more work ahead. The business environment today continues to be very difficult…and in this environment it's more important than ever that we keep our lines of communication open, particularly those that we have with senior policymakers around the world.

Toward that end, I was delighted late last year to meet in China with senior supervisors and regulators at the People's Bank of China and the China Banking Regulatory Commission. In the UK and Europe, we continue to maintain active, productive dialogues with the leadership of the FSA and Bank of England, the EC and the ECB. In the U.S., we've met with the chairman of the Federal Reserve, the Secretary of the Treasury and other senior policymakers and legislators.

During these sessions, we continue to communicate our key messages regarding the swaps business:

As our survey indicates, privately negotiated derivatives, including CDS, are widely used by companies around the world, and they play an important role in enabling firms to more effectively manage risk. According to a survey ISDA released today, 94% of the world's 500 largest companies use derivative instruments to manage and hedge their business and financial risks. The companies included in the survey are based in 32 different countries and represent a broad range of industries from basic materials to office equipment to retail and health care.

Of the 500 companies, 100 percent of those located in Canada, France, Great Britain, Japan and The Netherlands report using derivatives. In Germany, the figure is 97 percent. In the U.S., it's 92 percent. In Asia, 87 percent of Korean companies and 62 percent of Chinese companies report using derivatives.

What lies behind the widespread use of OTC derivatives around the world?

Simply stated, it's that derivatives help companies manage their foreign exchange, interest rate, and commodity exposures. They protect a company's financial health and its ability to meet its financial obligations by enabling it to transfer risks to other businesses that are set up to deal with these risks.

And by allowing the transfer of risk, OTC derivatives help to free up lending capacity, giving companies access to credit to keep their operations going, invest in new technologies, build new plants and expand workforces.

As for credit default swaps specifically, CDS activity has remained robust during the credit crunch and the market has remained open throughout the crisis. In many instances, it has been the only tool in the credit risk management toolbox that has allowed firms to mitigate credit risk.

CDS serve a valuable signaling function. CDS prices produce better and more timely information because they rely on market-based information about a company's financial health. A case in point: The U.K. Government's 2008 Credit Guarantee Scheme. Firms participating in the plan are paying a fee based on their five-year CDS spread.

I would say, in general, that policymakers are open to a constructive dialogue with ISDA. They understand the benefits that derivatives offer to the financial system and to firms that use them. They and we also understand that we need the right kind of regulation that allows markets to operate, but that also provides the necessary oversight and protection to prevent the kind of financial turmoil we are now experiencing.

In the current environment, we at ISDA and at our member firms need to be especially sensitive to concerns expressed by policymakers, and we need to embrace them, address them and find constructive solutions. And that's exactly what we are doing. As we do so, our focus remains on ensuring that policy prescriptions recognize the important economic benefits of OTC derivatives.

Despite ISDA's best efforts, it's clear that there are significant misperceptions and misunderstandings in the public domain regarding the role of derivatives in the current financial crisis.

As has been recently suggested to me, blaming CDS for the financial crisis is like blaming the thermometer for the temperature outside. It is difficult for me to understand how the CDS market, which measures about $2.5 trillion in net notional, could be responsible for a crisis whose current price tag is over $7 trillion.

It's also difficult to understand the issues raised regarding transparency in the CDS market. On the one hand, some critics argue that CDS prices today have an outsized importance in driving fixed income and even equity values. But on the other hand, critics are also saying that the CDS market is too opaque. Well, which is it?

In our view, it's neither. The fact is, the CDS market has remained liquid, so it's no surprise that CDS provide useful price signals. The recent trend of basing term loan pricing on CDS spreads as opposed to credit ratings illustrates their increasing value as a price information tool. Efforts to prohibit some firms from engaging in CDS transactions may lead to less liquidity in the market. They may also disrupt the price signaling function that CDS provide. And ultimately they may impede a return to more normal credit market conditions.

As we move forward, we will continue to address these misperceptions. And as I noted, we will continue to ensure that ISDA works effectively with all of its constituencies.

2009 marks the 25th year since a small group of dealers got together in New York to talk about issues in an emerging area of the financial markets called the swaps business. Who knew then how large the industry would become? And who knows what it could become in another 25 years? Well, it's our job to make sure that it gets there, as efficiently and as strongly as possible. And it's a job that I, my colleagues on the ISDA board, Bob and the ISDA staff are very committed to.

Thank you, and now it's my great pleasure to introduce to you one of the most important and special guests that we have ever been honored to hear from at an annual general meeting…a man who is a pioneer and architect of China's financial system…Chairman LIU Mingkang of the China Banking Regulatory Commission.

Chairman Liu assumed his current position when the CBRC was created in March 2003. He also serves as a member of the Monetary Policy Committee of the People's Bank of China.

Before heading the CBRC, Chairman LIU held various positions in both banking institutions and government agencies. This includes serving as Chairman and President of Bank of China, Chairman of China Everbright Group, and Deputy Governor of the People's Bank of China.

Chairman LIU has been active in international groupsand academic institutions. He is the Chairman of the International Advisory Council of the CBRC, a member of the Peking

University’s International Advisory Board, and a member of the Tsinghua University’s International Advisory Board.  He serves as a member of the Financial Stability Forum Chairman’s Advisory Council.

Chairman LIU received an MBA degree and an honorary doctorate from the City University of London.

We are very grateful that he has agreed to speak with us today, and it is my great privilege to welcome him to our annual general meeting.  Chairman LIU?

# # #