Opening Remarks

Robert G. Pickel
Executive Vice Chairman
ISDA

9:00am
Thursday, April 14, 2011
# OTC Derivatives Market Structure

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>OTC Swaps</th>
<th>Listed Futures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Counterparties</td>
<td>&lt; 1,000</td>
<td>&gt;&gt; 100,000</td>
</tr>
<tr>
<td>Retail Participation</td>
<td>None</td>
<td>Significant</td>
</tr>
<tr>
<td>Daily Trades</td>
<td>&lt; 20,000</td>
<td>&gt; 1,000,000</td>
</tr>
<tr>
<td>Tradable Instruments</td>
<td>&gt;&gt; 100,000</td>
<td>&lt; 1,000</td>
</tr>
<tr>
<td>Trade Size</td>
<td>Very Large</td>
<td>Small</td>
</tr>
<tr>
<td>Market Structure</td>
<td>Bilateral (OTC)</td>
<td>Exchange</td>
</tr>
</tbody>
</table>

ISDA
OTC Derivatives Market Structure: IRS

5500 Daily Trades

- 3600 swaps
- 1900 caps, floors, etc.

1200 USD and 830 EURO IRS are traded daily

Less than 50% of daily swaps trading is standardized

- Most liquid standardized swap (10y USD) trades 200x per day
OTC Derivatives Market Structure: CDS

6700 Daily Trades
- 4900 single-names
- 1800 indices

13 out of 3000 single-names trade 20 or more contracts per day
- 99% of single-name CDS trade less than 20x per day

5 CDS indices comprise 60% of daily CDS index trading
OTC derivatives markets distinctly different than futures market

Regulation should not reduce liquidity

Why should trading facilities be mandatory for cleared trades?
  • Clearing will lead to voluntary development and usage of trading facilities

Real-time reporting should be done with care
  • Effect on equity markets
  • High speed trading

Need to preserve market-making/client involvement for large trades

Phase-in of trading facility requirements needed
Current pricing extremely competitive

Recent blind test of IRS market
  • Executable quotes were 0.001% over mid-market

Benefits
  • Participants should be able to decide when and if using trading facilities provides benefits.
  • Mandate locks in one way of trading, reducing flexibility.

Costs
  • Higher prices on block trades
  • Cost of linking to facilities
  • Start-up and operating costs of facilities
  • Regulatory costs
"All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate"
- G20, 2009

“It is appropriate to trade standardised derivatives contracts with a suitable degree of liquidity on “exchanges or electronic trading platforms,” provided that a flexible approach encompassing a range of platforms… for derivatives trading is taken”
- IOSCO, February 2011

“Our idea [in Europe] is not to disturb existing business models for trading of OTC derivatives”
- Maria Velentza, head of the securities market unit at the Commission, March 2011