



INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION, INC.

NEWS RELEASE

For Immediate Release, Monday, June 14, 2010

For More Information, Please Contact:

Rebecca O'Neill, ISDA London, +44 203 088 3586, roneill@isda.org

Cesaltine Gregorio, ISDA New York, +1 212-901-6019, cgregorio@isda.org

Deirdre Leahy, ISDA New York, +1 212-901-6021, dleahy@isda.org

Donna Chan, ISDA Hong Kong, +852 2200 5906, dchan@isda.org

ISDA Comments on European Commission Consultation

NEW YORK, Monday, June 14, 2010 – Following publication of the European Commission (EC)'s consultation papers on the regulation of the over-the-counter (OTC) derivatives markets, the International Swaps and Derivatives Association, Inc. (ISDA) today made the following statement:

ISDA and the OTC derivatives industry welcome the European Commission's efforts and look forward to giving our views on the consultation paper. We and our members support financial regulatory reform in the interest of ensuring market stability and reducing systemic risk. Our extensive, on-going work focuses on three key areas – improving transparency, strengthening counterparty risk management through the use of clearinghouses, and building a robust operational infrastructure – and underscores our commitment to making derivatives safer.

Today, regulators have complete transparency over Credit Default Swap (CDS) and Interest Rate Swap (IRS) market positions, through the trade repositories that are in place for those asset classes. The industry's goal is to provide supervisors with a complete view of the OTC derivatives market, both cleared and uncleared trades, across transactions, firms, and counterparties. The Association supports proposals that will require the use of, and reporting to, trade repositories for OTC derivatives.

To strengthen counterparty risk management infrastructure, the industry is committed to delivering robust, efficient and accessible central clearing to the OTC derivatives markets. Significant steps have been undertaken by industry participants to increase the range of products eligible for clearing and deliver a high level of standardisation across all asset classes to increase the netting and clearing potential for all appropriate products. We strongly support the principles that clearing houses should be robust and that some derivatives are simply not eligible for clearing.

Through May 2010, approximately \$9 trillion of CDS trades and over \$210 trillion of interest rate swaps (IRS) have been centrally cleared. In September 2009, ISDA and 14 large market participants committed to clearing 95 percent of new eligible CDS trades and 90 percent of new

eligible IRS. In addition, portfolio compression has enabled firms to significantly reduce the level of notional outstanding by approximately \$100 trillion, of which \$65 trillion is CDS.

Robust operational infrastructure has been achieved through the increased use of automation and technology, with nearly 99% of liquid CDS confirmed electronically and less than a business day's worth of aged confirmations outstanding for the three major OTC derivatives product classes – CDS, IRS, and equity swaps.

Recently, there has been a significant amount of attention regarding sovereign CDS and the extent to which naked sovereign CDS are dictating the prices of the underlying bond markets. ISDA and the industry continue to maintain that it is difficult to believe that the far smaller CDS market has had an undue influence on cash bond markets that are 70 times bigger. Authoritative opinions support this view.

In addition, data relating to CDS activity on sovereign debt (including transaction level data) is readily available to regulators and legislators at The Depository Trust Company's Trade Information Warehouse (www.dtcc.com/products/derivserv/data/index.php). To date there has been no evidence to suggest any unusual CDS trading activity. Moreover, sovereign CDS trades – whether naked or otherwise – are used as a form of hedging by banks that extend credit to corporations and banks, by investors in stocks and by entities that have significant real estate or corporate holdings.

About ISDA

ISDA, which represents participants in the privately negotiated derivatives industry, is among the world's largest global financial trade associations as measured by number of member firms. ISDA was chartered in 1985, and today has over 820 member institutions from 57 countries on six continents. These members include most of the world's major institutions that deal in privately negotiated derivatives, as well as many of the businesses, governmental entities and other end users that rely on over-the-counter derivatives to manage efficiently the financial market risks inherent in their core economic activities. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

ISDA® is a registered trademark of the International Swaps and Derivatives Association, Inc.