Press Release

New York Fed Welcomes New Industry Commitments on Credit Derivatives

March 27, 2008

The Federal Reserve Bank of New York welcomes the commitments announced today by major market participants to improve over-the-counter (OTC) derivatives processing. The letter outlining these commitments represents increased collaboration among major dealers, buy-side firms and key industry associations, and it supports the recommendations set forth in the March 13, 2008, policy statement of the President’s Working Group on Financial Markets.

Since OTC derivative dealers started addressing credit derivative processing issues in 2005, they have reduced confirmations outstanding more than 30 days by 85 percent, increased electronic processing to more than 90 percent of all credit derivative trades and eliminated the risk of novations causing dealers not to know their counterparties.

Nevertheless, volume surges in mid-2007 underscored the processing challenges that persist in the OTC credit derivatives market. To support long-term growth, the processing infrastructure must be capable of processing transactions efficiently through periods of sustained high volume and market volatility. The new commitments reflect market participants’ recognition that achieving this objective requires end-to-end automation, increased interoperability and targeted improvements to the processing workflow.

The letter specifies a number of near-term steps to support these goals:

- improved levels of timeliness and accuracy in the immediate post-trade process
- automated novations processing by the end of 2008
- universal use of standard reference data and,
- full implementation of centralized settlement among major dealers by September 2008.

These improvements will require the cooperation of all industry participants, and the letter appropriately includes commitments from both the sell-side and buy-side community. The New York Fed encourages continued collaboration among all industry participants as the market infrastructure evolves.

The New York Fed will continue to work with domestic and international industry supervisors to monitor progress and encourage further efforts to improve the OTC derivatives infrastructure.

Contact: Andrew Williams
(212) 720-6143
(646) 720-6143
andrew.williams@ny.frb.org

Federal Reserve System