

Federal Reserve Bank of New York
Press Release

Statement Regarding June 9 Meeting on Over-the-Counter Derivatives

June 9, 2008

Fourth Industry Meeting Hosted by the Federal Reserve Bank of New York

The Federal Reserve Bank of New York hosted a meeting today of major market participants and their domestic and international supervisors to review the industry's strategy for addressing weaknesses in the operational infrastructure of the over-the-counter (OTC) derivatives market. The June 9 meeting was the fourth with major dealers on this topic and the first to include buy-side clients and industry associations.

Starting in September 2005, industry participants implemented a number of initiatives to improve the operational performance and infrastructure of the OTC derivatives market. Through these initiatives, market participants have significantly expanded automation, with 91 percent of credit derivatives trades being confirmed on electronic platforms, and reduced the number of credit derivatives confirmations outstanding more than 30 days by 86 percent.

Market participants and regulators agreed on the following agenda for bringing about further improvements in the OTC derivatives market infrastructure:

- further increasing standardization and automation of credit derivatives trade processing with the objective of moving towards matching on T+0,
- developing a central counterparty for credit default swaps that, with a robust risk management regime, can help reduce systemic risk,
- promoting greater certainty in credit event management by incorporating an auction based settlement mechanism into standard credit derivatives documentation,
- reducing the volume of outstanding credit derivatives trades via multilateral trade terminations to help reduce operational risk, and
- extending infrastructure improvements to OTC equity, interest rate, foreign exchange, and commodity derivatives as guided by the March 2008 policy statement by the Presidents Working Group on Financial Markets.

Market participants reaffirmed their commitment to the objectives laid out in their March 27, 2008 letter to regulators. They also agreed to detail their next steps for addressing these priorities to regulators by July 31.

These efforts will continue to be encouraged and supported by the primary supervisors of major participants in these markets.

[List of attending institutions pdf]

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