

## Press Release

### New York Fed Welcomes Expanded Industry Commitments on Over-the-Counter Derivatives

July 31, 2008

The Federal Reserve Bank of New York welcomes the steps announced today by major market participants to enhance efforts to improve over-the-counter (OTC) derivatives processing. These steps represent the most comprehensive efforts to date by major dealers and buy-side firms to improve the resiliency of the OTC derivatives market. Pursuant to the March 13, 2008 policy statement of the President's Working Group on Financial Markets, market participants are expanding the scope of their efforts from OTC credit and equity derivatives to include OTC interest rate, commodities and foreign exchange derivatives.

"These improvements to the derivatives infrastructure are important to strengthen the resiliency of the financial system." said Timothy F. Geithner, New York Fed President.

The attached letter sets trade date matching as a key element to achieving the long-term objective of an OTC derivatives processing environment that handles growing trade volumes without material systemic risk. Market participants have also agreed to several interim steps as they further refine their long-term strategy. Of particular importance are:

- Increasing the timeliness and accuracy of immediate post-trade processing of credit derivatives beyond the target levels set in March 2008. This will ensure market participants improve operations in the short-term while they continue to develop the long-term solution;
- Developing a robust central clearing infrastructure for OTC credit derivatives with the objective to launch index products in 2008. This will help reduce systemic risk associated with counterparty credit exposure and improve how the failure of a major participant would be addressed;
- Reducing the number of outstanding credit derivatives trades through multilateral trade terminations. These terminations will lower the trade count and notional amounts outstanding and reduce counterparty credit exposures and operational risk;
- Incorporating an auction-based settlement mechanism into standard credit derivatives documentation by the end of 2008 to increase the certainty of a transparent and orderly settlement process following a credit event;
- Processing 75 percent of eligible OTC equity and interest rate derivatives trades on electronic platforms by January 31, 2009, furthering automation as participants in these markets move toward the long-term objective of matching on trade date; and
- Improving collateral management practices, including conducting weekly portfolio reconciliations by the end of 2008 ensuring that market participants have accurate and up-to-date trade information vis-à-vis their counterparties.

In addition, market participants outlined plans to standardize documentation and automation of commodity derivatives trades, and committed to submit regular foreign exchange operating data to regulators. Participants also agreed to provide detailed plans for achieving long-term processing goals in each OTC derivatives asset class by October 31, 2008.

Market participants are also executing an implementation plan for the buy-side community. The attached plan, submitted to regulators in June, represents a significant effort to educate buy-side firms about efforts to improve the OTC derivatives infrastructure.

Because of the scope of these efforts, a summary document of the new and continuing commitments can be found here: [Summary of OTC Derivatives Commitments pdf](#).

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.

[Participants' July 31 Letter pdf](#)

[Participants' July 31 Letter Supplement pdf](#)

[Implementation Plan pdf](#)

[Summary of OTC Derivatives Commitments pdf](#)

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