

TESTIMONY OF ROBERT PICKEL  
EXECUTIVE VICE CHAIRMAN  
INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION, INC.  
BEFORE THE  
U.S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON AGRICULTURE  
FEBRUARY 10, 2011

Chairman Lucas, Ranking Member Peterson and Members of the Committee:

Thank you for the opportunity to testify today regarding implementation of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Like all of you here today, ISDA is very supportive of efforts to build a more robust and effective financial regulatory framework. We fully share the goal of policymakers in the U.S. and around the world to enhance the safety and soundness of our financial markets. As you will hear, we are actively at work in key areas -- such as reducing counterparty risk and increasing transparency -- that support these goals. We are, however, concerned that the volume of and the compressed timeframe for finalizing the rules required under the Act may work against the law's essential purpose, impede the availability of hedging tools that U.S. companies need to manage their risks and adversely impact the competitiveness of the U.S.-based derivatives markets. We also are concerned that some of the proposed regulations go beyond the statutory requirements of the Dodd-Frank Act and will create new rules with that will adversely affect the existing swaps markets with little apparent benefit.

**Introduction**

The International Swaps and Derivatives Association, or ISDA, was chartered in 1985 and has over 800 member institutions from 54 countries on six continents. Our 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.

ISDA's focus is primarily on making the OTC derivatives markets safe and efficient. Over its 25-year history, ISDA has pioneered efforts to identify and reduce the sources of risk in the derivatives and risk management business through documentation that is the recognized standard throughout the global market, legal opinions that facilitate enforceability of agreements, the development of sound risk management practices, and advancing the understanding and treatment of derivatives and risk management from public policy and regulatory capital perspectives.

In the years leading up to and since the passage of the Dodd-Frank Act, ISDA, the major dealers, buy-side institutions and other industry associations have worked collaboratively to deliver structural improvements to the global over-the-counter (OTC) derivatives markets. These actions were undertaken as part of an ongoing dialogue with and commitments to global supervisors, including the Federal Reserve Bank of New York, the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), the Office of the Comptroller of the Currency and the Office of Thrift Supervision.

Through this process, the industry has made and continues to make substantial progress in three key areas: reducing counterparty risk; increasing transparency and enhancing the operational infrastructure of the swaps and derivatives business.

As to the reduction in counterparty risk, the industry is making significant progress through both clearing and portfolio compression. Today, about \$248 trillion of interest rate swaps, representing more than 40 percent of the market, is centrally cleared.<sup>1</sup> Another \$106 trillion of interest rate swaps has been eliminated due to portfolio compression.<sup>2</sup> In the credit default swaps markets, more than \$15 trillion has been centrally cleared.<sup>3</sup> Portfolio compression has eliminated more than \$70 trillion of CDS.<sup>4</sup> In fact, by virtue of the combination of central clearing and portfolio compression, the size of the CDS market has

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<sup>1</sup> [http://www.lchclearnet.com/swaps/swapclear\\_for\\_clearing\\_members/](http://www.lchclearnet.com/swaps/swapclear_for_clearing_members/)

<sup>2</sup> <http://www.trioptima.com/services/triReduce.html>

<sup>3</sup> <http://ir.theice.com/releasedetail.cfm?ReleaseID=545362>

<sup>4</sup> <http://www.trioptima.com/services/triReduce/triReduce-credit.html>;

been reduced by 75 percent in the past several years. We believe the volume of cleared swaps could double in the next two to three years.

As for our goal of increasing transparency, it is important to keep in mind that a distinction should be made between regulatory transparency and market transparency. Regulatory transparency means that regulators should have access to trade information on a timely basis in order to monitor market risk. ISDA fully supports this goal. The Association has helped establish trade repositories that provide global regulators with significant visibility into firm and counterparty risk exposures. This means that the uncertainties that occurred in the recent financial crisis regarding risk exposures of Lehman Brothers simply could not happen again.

Another aspect of transparency is market transparency, or price visibility for market participants. Recent ISDA surveys and tests demonstrate that users of most derivatives have tremendous pricing transparency and extremely competitive pricing. To obtain competitive pricing, the large majority of users receive price quotations from multiple dealers. Their concern is that these products remain available and affordable. A recent blind test of interest rate swap pricing for three American investment firms found tremendous price competition in both the dollar and Euro markets. When measured against a benchmark screen, these firms were able to obtain firm pricing on nearly \$2 billion of swaps at a spread of 0.001% over the middle of the bid-offer on the screen. These swaps were for maturities from two to thirty years and for sizes up to \$250 million.<sup>5</sup>

While the evidence indicates there is a significant level of price transparency in the OTC derivatives markets, the industry is actively exploring ways to improve further improve upon this and ISDA has sponsored research to this effect. We believe it is important that any efforts to build greater market transparency be done after careful analysis and evaluation of its benefits, its impact on liquidity and on the ability of end-users to use derivatives to manage their risks.

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<sup>5</sup> <http://isda.org/media/pdf/ISDATestReport.pdf>

As to the operational infrastructure of the OTC derivatives business, over the past several years, the industry has made significant improvements in reducing backlogs, and improving and automating middle- and back-office processes.

Our commitment in these areas has been detailed in a series of letters, beginning in September 2005, to the group of global supervisors referenced above, the latest of which, dated March 1, 2010, is attached to this testimony.<sup>6</sup> These actions by ISDA, the major dealers, buy-side institutions and other industry associations have improved the way OTC derivatives are traded, processed and cleared and reflect significant investment of resources and capital. They are a powerful indication of the commitment the industry has made to improve the market infrastructure as a means to achieving the shared policy goals of reducing systemic risk and increasing transparency. The industry recently met again with global supervisors and is in discussions about an additional commitment letter that will provide a roadmap to achieving compliance with regulatory requirements both in the United States and elsewhere.

### **Dodd-Frank Rulemaking Process**

The Dodd-Frank Act is a wide-ranging and comprehensive piece of legislation. As a result, all of the federal financial regulatory agencies have been faced with an unprecedented level of obligated rulemaking. The CFTC and SEC, in particular, have an especially challenging task as they attempt to create a new regulatory regime for the OTC derivatives markets. Since the passage of the Dodd-Frank Act last July, ISDA has continued to work closely with various U.S. regulators with the goal of helping them develop rules that achieve the goals of the Act, while mitigating against any undesirable, unintended adverse consequences.

It is vital that this new regulatory regime create a framework that increases transparency and mitigates systemic risk, while preserving the ability of derivatives users to hedge and manage risk in a prudent and cost-effective manner. As the regulators attempt to strike this very difficult balance, we have

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[http://www.newyorkfed.org/newsevents/news/markets/2010/100301\\_letter.pdf](http://www.newyorkfed.org/newsevents/news/markets/2010/100301_letter.pdf)

several recommendations that we believe may be helpful regarding the rulemaking process that take into consideration key issues regarding the market's structure and liquidity, the costs and availability of derivatives and hedging for end-users, and the continued competitiveness of the U.S. firms in the global swaps and derivatives markets.

### **The Process**

We applaud the efforts of the CFTC and SEC to create an open and transparent rulemaking process. The Commissions have diligently posted and reported all meetings with stakeholders and have held a series of public roundtables to consider a number of issues related to Dodd-Frank Act rulemakings. ISDA has taken part in this transparent rulemaking process and has filed approximately 30 formal comment letters. In addition, ISDA has had a number of discussions with the Chairpersons and Commissioners of the CFTC and SEC and the Staffs of both Commissions, and has participated in a number of public roundtables.

Of course, in addition to transparency, a key to the promulgation of effective and meaningful rulemaking is to allow for, in essence, an iterative process between the Commissions and commentators. We are concerned that the volume of proposed rulemakings and the Commissions' compressed statutory time frame for promulgating their new rules may impair such a process, and hamper the ability of commentators to provide thoughtful and comprehensive comments and of agency staff to digest and assess the comments that are submitted. Toward that end, ISDA and a number of trade associations jointly wrote to the Commissions to urge them to use their discretion to propose, adopt and implement rules in an appropriate sequence and timeframe.<sup>7</sup>

Some of the proposed rules, for example, contain or are based on standards or numbers that will be hardwired into the regulatory framework. This includes the requirement that trades below \$250 million in notional principal be subject to real-time reporting requirements, a level that does not take into

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<sup>7</sup> <http://www.isda.org/speeches/pdf/Comment-Letter-on-Regulatory-Process-and-Phase-In.pdf>

account the structure of the derivatives market. This proposed rule could disrupt risk transfer by American companies and impede the capital formation process that is essential to economic growth.

We also are concerned that some of the proposed regulations go beyond the statutory requirements of the Dodd-Frank Act and will create new obligations or set new standards that will fundamentally and negatively affect the existing swaps markets with little apparent benefit. For example, the CFTC's proposes to require that swaps execution facilities (SEFs) must have access to quotes from five dealers. There is to our knowledge no objective evidence that supports this decision or that indicates why five is the optimal number of dealers on a SEF. The law itself only specifies that such quotes be sent to multiple dealers.

Finally, we are encouraged that the agencies appear to recognize the need to phase-in the requirements of the Dodd-Frank Act and stress that the transition to this new regulatory regime occur incrementally in a way that ensures the continued viability of the market and that also protects overall liquidity.

### **Liquidity**

As noted, ISDA strongly believes that consideration of the effects of any rule on market liquidity is critical in connection with the promulgation of new regulatory requirements. Liquidity is the lifeblood of the financial system; it is universally recognized as a key element of an efficient marketplace and necessary for financial markets to remain viable. A market's liquidity is a function of its structure. For example, despite its size, trading in the OTC derivatives markets is quite limited. Roughly 5,500 interest rate swap contracts are executed each day in over 20 currencies. This compares to the approximately 300,000 tickets per day in the U.S. government and Eurodollar futures contracts traded at the CME Group. Daily OTC interest rate swap volume is 2 percent of the corresponding CME Group futures

contracts. The daily volume of trades executed in U.S. dollars is less than 1 percent of the corresponding futures markets.<sup>8</sup>

Congress recognized the importance of liquidity throughout the Dodd-Frank Act. For example, when setting real-time reporting requirements, the CFTC and SEC are required to consider the effects on liquidity when setting block trading exemptions. This is important considering that the average size of a ten-year U.S. dollar interest rate swap was \$75 million during 2010, whereas comparable transactions in futures and securities markets are substantially smaller (\$2 million for ten-year U.S. Treasury Notes futures and \$3 million for U.S. corporate bonds, respectively.)<sup>9</sup> ISDA believes that block trade thresholds should be set so that liquidity is not impaired, in order to ensure that these vital markets enable cost-effective risk-hedging, so vital to the preservation of economic stability. In addition, we do not believe that there is a “one size fits all” solution; rules should be tailored to products and markets. Rules for relatively less liquid products should be different from rules for more liquid products. Uniform rules that do not take into account the structure of the derivatives market will discourage the transfer of risks by U.S. companies, particularly during times of market stress. Firms will be extremely wary of offering firm quotes if they can not effectively hedge the risks they are taking on because of post-trade transparency rules.

The Commissions also are required to consider liquidity when determining which instruments should be subject to new clearing requirements. ISDA believes it is imperative that any new requirements do not impair existing liquidity. Failure to consider such impacts will hurt the fairness, stability and efficiency of the overall market and, in many instances, make it more difficult, or even impossible, to hedge or mitigate risk in an efficient and cost-effective way. We recommend that when considering aspects of the Dodd-Frank Act that could impact liquidity, such as appropriate exceptions to real-time reporting requirements for “block” trades, that the Commissions engage in robust market and impact analyses of these proposals prior to finalizing their rules. ISDA has conducted research on the structure

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<sup>8</sup> <http://www.trioptima.com/repository.html>

<sup>9</sup> [http://www.isda.org/c\\_and\\_a/pdf/EquitiesTransparency-Study.pdf](http://www.isda.org/c_and_a/pdf/EquitiesTransparency-Study.pdf)

of the interest rate, credit default and equity swaps markets and has sponsored a test on interest rate swaps pricing that is publicly available for review.

Another concern regarding the impact of the Dodd-Frank Act on the liquidity of the derivatives markets and the ability of end-users to hedge their risks relates to the foreign exchange (FX) market. Under the law, the Treasury Department has the ability to exempt FX swaps and forwards from the definition and related regulation of swaps under the law. The FX market is large, liquid, a vital part of the commercial banking market and essential to economic activity. Classification of FX swaps and forwards as swaps would subject many FX transactions to clearing and execution requirements and would have significant adverse effects on the market for these transactions. For these reasons, ISDA urges the Treasury Department to use the exemptive authority that the Dodd-Frank Act provides to it.

### **Costs**

Although adverse effects on liquidity can be avoided or mitigated in the implementation process, increased costs related to new regulations are often unavoidable. These costs are even higher when creating a new regulatory regime from whole cloth as is the case with the swaps markets; as a result, it is imperative that the Commission recognize the need to accurately assess all costs (both explicit and implicit) and mitigate these costs to the maximum extent possible. These costs can be alleviated by leveraging existing industry processes and practices and by ensuring that new regulations do not go beyond the mandate set by the Dodd-Frank Act.

### **U.S. Competitiveness**

Perhaps most importantly, the implementing Commissions should consider the competitiveness of the U.S. financial markets and U.S. financial firms when setting new requirements. Over 90 percent of the largest U.S. companies use OTC derivatives to manage their business and financial risks. A broader survey of the top 2,200 American companies found that 65 percent use derivatives.<sup>10</sup>

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<sup>10</sup> [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=962942](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=962942).

We are concerned that overly restrictive requirements, coupled with increased and unnecessary costs, may result in transfers of businesses and, eventually, jobs overseas. Although the U.S. remains the most dynamic, innovative marketplace in the world, we note that transaction volume in London already exceeds that in New York. We also note that the five largest U.S.-based dealers reported a notional amount outstanding equal to only 37 percent of the total notional amount for interest rate, credit, and equity derivatives.<sup>11</sup> We strongly recommend that the CFTC and SEC engage in thorough market analyses before promulgating new requirements, to ensure that such requirements are not unduly burdensome or likely to create incentives to do business outside the U.S.

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In conclusion, we applaud the efforts of the CFTC and SEC to promulgate the massive number of Dodd-Frank Act rulemakings and appreciate the transparency they have attempted to provide. We recommend, however, that the Commissions assure that their rulemaking processes allow for an iterative process between their staff and industry commentators, a complete assessment; an analysis of proposed rules' potential impacts on markets, firms and the U.S. swaps and derivatives markets; and an orderly transition to this new regulatory regime.

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<sup>11</sup> <http://www.isda.org/media/press/2010/press102510.html>.

March 1, 2010

**Identical versions of this letter have been addressed directly to the heads of the primary supervisory agency of each of the regulated signatories.**

The Honorable William C. Dudley  
President  
Federal Reserve Bank of New York  
33 Liberty Street, 10F  
New York, NY 10045

Dear Mr. Dudley,

The undersigned dealers (each, a G14 Member) and buy-side institutions continue to work collaboratively to deliver structural improvements to the global over-the-counter derivatives markets (OTC Derivatives Markets).<sup>1</sup> This effort is undertaken as part of our ongoing partnership with Supervisors, government departments, trade associations, industry utilities and private vendors. The purpose of this letter is to set forth goals and commitments the fulfillment of which will continue to move the market to the standards of resilience and robustness envisaged by bodies such as the G20.<sup>2</sup>

The industry recognizes the significant work that lies ahead, and re-affirms its commitment to aggressively pursue improvements along five overarching themes:

- In order to increase transparency and better understand transparency needs in the OTC Derivatives Market, the signatories will: (a) continue to advance the development of global data repositories; (b) provide relevant Supervisors with: (i) an inventory of existing forms of transparency in OTC Derivatives Markets by product and asset class; (ii) a study which describes and evaluates the spectrum of methods that can be used to increase transparency, analyzes the benefits and costs and attempts to identify to whom such benefits and costs accrue and (iii) relevant transaction data to support the Supervisors' own analysis.
- In order to deliver robust, efficient and accessible central clearing to the OTC Derivatives Markets, the signatories make a strong commitment to increase: (a) the range of products eligible for clearing and (b) the proportion of open interest in the products that are cleared. In support of this commitment, where appropriate, the signatories will work towards the inclusion of users, either through direct access or through indirect client access, including extension of segregation and portability. In order to better reflect the composition of the credit default swap (CDS) market, the signatories who are participants on the ISDA Credit Derivatives Determinations Committees (each, a DC) will propose a framework to involve CDS central counterparties (each, a CCP) in the DC process.
- Drive a high level of product, processing and legal standardization in each asset class with a goal of securing operational efficiency, mitigating operational risk and increasing the netting and clearing potential for appropriate products (recognizing that standardization is only one of a number of criteria for clearing eligibility). Accordingly, workstreams have been established to

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<sup>1</sup> The commitments or undertakings described throughout this letter are subject to the applicable fiduciary responsibilities of signatory firms, including any and all client-specific duties, obligations and instructions.

<sup>2</sup> Pursuant to this, we strongly support many of the goals and aspirations set out in relevant white papers and consultation documents published by, inter alia, the European Commission, the FRBNY and the UK Treasury/FSA.

analyze existing, and where appropriate, potential opportunities for further standardization by asset class and by product.

- Continue to work to enhance bilateral collateralization arrangements to ensure robust risk management, including strong legal and market practices and operational frameworks. In particular, continue the work on resolution procedures for variation margin disputes arising out of bilateral derivatives transactions, and on publication and adoption of best practices among the G14 Members and other signatories. Additionally, continue the consideration of the risks, mitigants and enhancements associated with initial margin.
- Build on improvements in operational performance, with a focus on driving 'electronification', straight-through-processing, and trade date matching, affirmation and processing.

Having recognized the need to act expeditiously to implement a robust and resilient framework for OTC derivatives risk management and market structure, and acknowledging the importance of OTC Derivatives Markets, we have laid out goals with specific targets to the Supervisors in five previous joint industry commitment letters. Since the June 2, 2009 letter, we have completed the following steps:

- Implementation of the industry governance model put forward by ISDA in 2009.
- Further standardization of Credit Derivatives.
- The successful launch of CDS clearing in Europe.
- Initial extension of clearing services to buy-side firms.
- Substantial progress in the implementation of global data repositories.
- Delivery of proposals for improvements to the OTC bilateral collateral processes.
- Continued improvement in industry infrastructure.

These commitment letters represent not only a powerful statement of intent but also evidence of positive action from the industry, and also reflect significant investment of resources and capital.

Contained in the attached Annexes are a series of further commitments which reflect these common themes, and which will support continued progress towards our shared goals of a resilient and robust OTC Derivatives Markets infrastructure. We believe that fulfillment of these commitments will deliver structural improvements to the OTC Derivatives Markets and will thus enable them to continue to perform their crucial function of risk management, while, where appropriate, retaining flexibility in terms of products and execution in a systemically sound construct.

We look forward to our continued collaboration and strong dialogue with the Supervisors and legislators as we drive forward with these fundamental industry initiatives.

From the Managements of:

AllianceBernstein  
Bank of America-Merrill Lynch  
Barclays Capital  
BlackRock, Inc.  
BlueMountain Capital Management LLC  
BNP Paribas  
Citadel Investment Group, L.L.C.  
Citi  
Credit Suisse  
Deutsche Bank AG  
D.E. Shaw & Co., L.P.  
DW Investment Management LP  
Goldman Sachs & Co.  
Goldman Sachs Asset Management, L.P.  
HSBC Group  
International Swaps and Derivatives Association, Inc.  
J.P.Morgan  
Managed Funds Association  
Morgan Stanley  
Pacific Investment Management Company, LLC  
The Royal Bank of Scotland Group  
Asset Management Group of the Securities Industry and Financial Markets Association  
Société Générale  
UBS AG  
Wachovia Bank, N.A.  
Wellington Management Company, LLP

Identical versions of this letter have been addressed directly to the heads of the primary supervisory agency (each, a Supervisor) of each of the regulated signatories, including:

Board of Governors of the Federal Reserve System  
Connecticut State Banking Department  
Federal Deposit Insurance Corporation  
Federal Reserve Bank of New York  
Federal Reserve Bank of Richmond  
French Secretariat General de la Commission Bancaire  
German Federal Financial Supervisory Authority  
Japan Financial Services Agency  
New York State Banking Department  
Office of the Comptroller of the Currency  
Securities and Exchange Commission  
Swiss Financial Market Supervisory Authority  
United Kingdom Financial Services Authority

CC:

Commodity Futures Trading Commission  
European Commission  
European Central Bank

## Annex A – Recent Achievements

1. The implementation of a revised and formal ISDA Governance framework, with increased participation of the buy-side in the strategic agenda, policy formation and decision-making process. The newly created ISDA Industry Governance Committee (IIGC), under the auspices of the ISDA Board, provides governance and strategic direction for the product level steering and working groups, and acts as a focal point for the Supervisors and legislators to engage effectively with the industry.
2. Significant progress on product standardization for Credit Derivatives, including, the completion of the 2009 ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring CDS Protocol (often referred to as the “Small Bang”), which allowed existing Credit Derivative contracts to be modified to provide for Auction Settlement for Restructuring Credit Events.
3. The successful completion of the auction settlement process for Credit Derivatives that included the Modified Modified Restructuring Credit Event after the Thomson Restructuring.
4. The successful application of the DC External Review procedure for the Cemex S.A.B. de C.V. Restructuring Credit Event.
5. Meeting or exceeding clearing targets set in respect of dealer-to-dealer new and historic volume for clearing Eligible Trades<sup>3</sup> in Interest Rate and Credit Derivative products. In excess of 90% of new dealer-to-dealer volume in Eligible Trades of Interest Rate Derivative products, and total dealer-to-dealer volume in Eligible Trades of Credit Derivative products is now cleared through CCPs.
6. Twenty-six of the largest Interest Rates Derivative market makers are currently utilizing the LCH.Clearnet Ltd. SwapClear (LCH) service to clear Interest Rate Derivatives. Six new dealers joined the service in 2009 as direct clearing members and twelve eligible dealers are expected to join in 2010. The service was extended to support clearing of Overnight Index Swaps (OIS) in July 2009. By the end of 2009, the platform had \$215 trillion notional and 1.57 million sides outstanding on the system.
7. The successful launch of CDS clearing in Europe and the recent launch of Single Name clearing in Europe and North America.
8. The initial extension of clearing services to the buy-side, with the launch of initial client access to the clearing of Credit Derivatives (ICE Trust on December 14, 2009 and CME on December 15, 2009) and Interest Rate Derivatives (LCH on December 17, 2009).
9. Significant progress in the implementation of global data repositories, with the successful launch of coverage for Credit Derivative and Interest Rate Derivative products. In addition, the selection process for the global data repository for Equity Derivative products has concluded, with launch anticipated on schedule on July 31, 2010.
10. Delivery of proposals for improvements to the OTC collateral process, through Dispute Resolution Procedures that would employ, *inter alia*, portfolio reconciliation, along with formal dispute resolution for intractable disputes.

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<sup>3</sup> “Eligible Trade” is defined in our prior commitment letter dated September 8, 2009.

11. Publication in 2009 of the Roadmap for Collateral Management, which is a forward-looking blueprint for evolving collateralization into a more efficient and effective counterparty credit risk reduction technique. Market participants have implemented several commitments outlined by the Roadmap to date; for example, a regime of daily portfolio reconciliations for collateralized portfolios, allowing firms to identify mismatches and achieve more complete collateralization of risk, and publication of an open standard to facilitate future electronic messaging of margin calls and automation of collateral processes.
12. Continued improvement in industry infrastructure, as measured by further reduction, and in some cases elimination, of unsigned transaction confirmation backlogs, and continued improvement in operating performance metrics.

## Annex B – Transparency

### 1) Transparency Study

With respect to the Credit Derivatives, Interest Rate Derivatives and Equity Derivatives Markets, the signatories will deliver to the Supervisors:

- an inventory of existing forms of transparency in OTC Derivative Markets by product and asset class (1st Deliverable);
- a study which (a) describes the spectrum of methods that can be used to increase transparency, (b) analyzes the benefits and costs by product and asset class and (c) attempts to identify to whom the benefits accrue and to whom the costs accrue (2nd Deliverable); and
- relevant transaction data that can be used by the Supervisors to conduct analysis on post trade transparency (3rd Deliverable).

The target dates with respect to Credit Derivatives, Interest Rate Derivatives and Equity Derivatives are:

	1 <sup>st</sup> Deliverable	2 <sup>nd</sup> Deliverable	3 <sup>rd</sup> Deliverable
Credit Derivatives	March 31, 2010	June 30, 2010	July 31, 2010
Interest Rate Derivatives	March 31, 2010	August 31, 2010	September 30, 2010
Equity Derivatives	March 31, 2010	August 31, 2010	September 30, 2010

We commit to provide to the Supervisors, by March 31, 2010, a plan and timeline, including concrete milestones and target dates, for accomplishing the 3rd Deliverable.

Each of the Commodities and Foreign Exchange market participants will separately continue their dialogue relating to market transparency issues with the relevant regulators.

### 2) Global Data Repositories

#### a) Equity Derivatives

We re-affirm our commitment made in the June 2, 2009 letter to Supervisors to implement a centralized reporting infrastructure for all OTC Equity Derivatives by July 31, 2010, with launch currently anticipated on schedule. We will work with the Supervisors to implement a reporting process that is both practical and meets regulatory expectations in regard to the agreed information held in the Equity Derivatives Reporting Repository.

#### b) Interest Rate Derivatives

The global Interest Rate Reporting Repository (IRRR) was launched on December 31, 2009, and the G14 Members are now providing monthly reporting from this global data repository on outstanding non-cleared trades to primary regulators. Since initial launch,

enhancements have been made to normalize submissions between dealers,<sup>4</sup> and we will continue to work with regulators and the legal community to expand and enhance this reporting process. Our efforts will include the following:

- Include cleared trades in the submission scope by March 15, 2010.
- Expand regulators' reporting to include participant type (G14 / CCP / Non-G14) by April 15, 2010.
- Provide public access to aggregate industry notional and trade count data on a monthly basis, in order to provide greater position transparency by April 30, 2010.
- Increase submission and reporting frequency to weekly beginning September 30, 2010.

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<sup>4</sup> Since inception of the IRRR, G14 Members have been working with the service provider to ensure that the data aggregation process is as thorough as possible and does not double count trades where G14 Members face each other.

## Annex C– Central Clearing

### 1) Targets

#### a) Submission Targets<sup>5 6</sup>

##### i) Credit Derivatives

On September 8, 2009, each G14 Member (individually) committed to submitting 95% of new Eligible Trades (calculated on the basis of previously agreed methodology) for clearing. We reaffirm this commitment. Each G14 Member will work with its primary regulator to assess its performance against this target by March 31, 2010. The G14 Members have agreed with the Supervisors to re-evaluate by June 30, 2010, the appropriate target percentage and definition of Eligible Trades to better reflect the need to preserve certain bilateral trades for counterparty risk management, accounting, regulatory capital, balance sheet and customer reasons.

##### ii) Interest Rate Derivatives

On September 8, 2009 each G14 Member (individually) committed to submitting 90% of new Eligible Trades (calculated on a notional basis) for clearing. The G14 Members now commit to extend this target so that, each G14 Member (individually) commits to submitting 92% of new Eligible Trades (calculated on a notional basis) for clearing by June 30, 2010.

#### b) Clearing Targets

##### i) Credit Derivatives

On September 8, 2009, the G14 Members (collectively) committed to clearing 80% of new and historical Eligible Trades (calculated on the basis of previously agreed methodology). The G14 Members (collectively) increase their commitment to clearing from 80% of new and historical Eligible Trades (calculated on the basis of previously agreed methodology) to 85%.

##### ii) Interest Rate Derivatives

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<sup>5</sup> “Eligible Trade” is defined in our prior commitment letter dated September 8, 2009.

<sup>6</sup> An example of why a dealer would want to exclude an Eligible Trade from clearing for counterparty risk management purposes would be where such dealer faces a counterparty bilaterally on two trades which offset each other from a net exposure perspective but where only one trade is an Eligible Trade. Moving the Eligible Trade to a CCP could immediately create a large uncollateralized payable from the counterparty to the dealer with respect to the uncleared (ineligible) trade, thereby increasing counterparty risk. In addition, even where the counterparty posted collateral with respect to such payable within the prescribed timeframe, the lack of the offsetting trade facing the counterparty would increase the dealer’s jump to default risk with respect to such counterparty. This problem is magnified considerably where the analysis above is applied on a multi billion dollar OTC derivatives portfolio. With respect to accounting, regulatory capital and balance sheet issues, an example of why a dealer would want to exclude an Eligible Trade from clearing would be where the dealer is hedging an outstanding loan position with the Eligible Trade. The automatic compression that results from trades placed in clearing could effectively “remove” the matched offsetting CDS hedge from the dealer’s book. Since the outstanding loan is no longer “paired” with an identifiable hedge (notwithstanding that the dealer’s risk position has not changed), the hedge accounting treatment of the loan could be impacted and the dealer could incur increased regulatory capital charges and detrimental balance sheet treatment.

On September 8, 2009 the G14 Members (collectively) committed to clearing 70% of new Eligible Trades (calculated on weighted average notional basis). The G14 Members (collectively) increase their commitment to clearing from 70% of new Eligible Trades (calculated on weighted average notional basis) to 90% by June 30, 2010.

On September 8, 2009 the G14 Members (collectively) committed to clearing 60% of historical Eligible Trades (calculated on a weighted average notional basis). The G14 Members (collectively) increase their commitment to clearing from 60% of historical Eligible Trades (calculated on weighted average notional basis) to 75% by June 30, 2010.

## 2) **Expansion of Products Eligible for Clearing**

The signatories to this letter commit to continue to provide considerable risk, legal and operational resources and to actively engage with CCPs, regulators and Supervisors globally to broaden the set of OTC Derivatives eligible for clearing, taking into account risk, liquidity, default management and other processes.

Significant issues will need to be analyzed and addressed by CCPs, regulators and market participants in order to begin clearing additional products. The analysis must address risk, legal and operational issues as well as the constraints associated with liquidity, volumes, standardization and fungibility. The process is different at each CCP, but generally requires consultation by a CCP with one or more working groups, a recommendation from a CCP's risk manager, approval by the CCP's risk committee and consultation with or approval by the CCP's primary regulator.

### a) Credit Derivatives

To assist in this analysis, the signatories have asked the Depository Trust & Clearing Corporation (DTCC) to perform an analysis of all CDS trades in the Warehouse Trust<sup>7</sup> which are on products not yet eligible for clearing. DTCC expects to deliver the completed analysis by April 15, 2010.

We will prioritize outstanding index transactions not already eligible and single name components of the indices. To that end, (i) the G14 Members have delivered to each relevant CCP (and commit to deliver on a monthly basis) a list of recommended launch targets for new products in order of priority, and (ii) the end-user signatories have delivered (and commit to deliver on a monthly basis) a substantially similar document to each relevant CCP. The signatories will encourage each relevant CCP to provide these lists together with their perspectives to the relevant Supervisors.

### b) Interest Rate Derivatives

We will work with CCPs to prioritize zero coupon swaps, single currency basis swaps and additional swap features utilized by end users this year, including extending the maximum tenors that can be cleared. Further analysis is required to assist CCPs in prioritizing the next phase of product expansion but we are considering including

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<sup>7</sup> DTCC is in the process of transferring the operations of the Trade Information Warehouse for CDS to a recently organized subsidiary, The Warehouse Trust Company LLC (Warehouse Trust).

Forward Rate Agreements, cross-currency swaps, caps, floors, European swaptions and inflation swaps. We commit to developing a plan for the next phase of product expansion before the end of 2010.

### 3) **Customer Access to Derivatives Clearing**

Remaining impediments to the expansion of buy-side access to clearing include legal and regulatory, risk management, and operational issues. Pursuant to our prior commitments, the signatories commit to work together with each relevant CCP<sup>8</sup> to resolve these remaining impediments to the expansion of buy-side access to clearing and to collectively agree the timeframes for the resolution of each such impediment. The process and priorities for each asset class will be targeted to achieve the following goals:

- resolution of all risk, margin, default management, legal and regulatory issues as required to meet the product roll-out schedules established with each CCP, without volume or open interest caps;
- reasonable automated operational access, and completion of end-to-end testing, for qualifying clearing members and their buy-side customers to meet the product roll-out schedules established with each CCP; and
- reasonable access to facilities to allow backloading of trades in eligible products.

Upon the achievement of the above goals, the signatories will make reasonable efforts to work towards increasing utilization of client clearing services. We understand that the Supervisors will closely monitor the industry's progress against the goals above and that if in their monitoring, the Supervisors determine that progress in meeting those goals is unsatisfactory, they will work with industry participants and CCPs to establish concrete methods to ensure that a meaningful amount of open interest in buy-side transactions will be centrally cleared.

To the extent that any impediment requires regulatory action and/or legislative change, the signatories commit to proactively inform the relevant regulatory or legislative bodies.

#### a) **Credit Derivatives**

Pursuant to our prior commitment, customer access to CDS clearing was initiated on December 14, 2009. While this launch represents a significant milestone, it is preliminary and requires further substantial work in order to effectively implement the prior commitment.

To that end, (i) the G14 Members have delivered to each relevant CCP (and commit to deliver on a bi-weekly basis) a current list of open items categorized by importance and priority, the suggested action plan, responsible parties and target date for completion of all critical items and the current targets for launching new products as referenced above, and (ii) the end-user signatories have delivered (and commit to deliver on a monthly basis) a substantially similar document to each relevant CCP. The signatories will encourage each relevant CCP to provide these lists together with their perspectives to the relevant Supervisors expeditiously. In addition, the signatories commit to work with each

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<sup>8</sup> As per the June 2, 2009 commitment letter, a CCP that has (a) broad buy-side and dealer support and (b) a commitment to develop viable direct and indirect buy-side clearing models.

relevant CCP to arrive at a unified list of open items and to encourage each relevant CCP to provide such lists to the Supervisors on an ongoing basis.

b) Interest Rate Derivatives

Customer access to Interest Rate Derivatives clearing was initiated in the LCH service on December 17, 2009. This launch represents a significant milestone in extending clearing services to clients. Clients access the LCH CCP through the existing direct clearing members, and the eligible product set is aligned with those products that can currently be cleared through the existing inter-dealer service.

The signatories recognize the Supervisors' policy goal of making available to the buy-side the benefits of client clearing for Interest Rate Derivatives. The signatories commit to work together to make available to the industry an effective client clearing framework.

We commit to creating working groups for relevant CCPs (where they do not exist already) by March 31, 2010, encompassing key buy-side, sell-side and CCP representation. These CCP working groups will meet at least monthly and focus on identifying and resolving the barriers to clearing to the extent possible and will report progress back to Supervisors on an ongoing basis.

4) CCP Involvement in ISDA Credit Derivatives Determinations Committees

Interim Regulatory Guidance on CCP Governance and Market Protocols issued by the CPSS-IOSCO RCCP Working Group on December 15, 2009, states that CCPs' interests should be represented on the DCs as they participate in the Credit Derivatives Market by providing clearing services and are expected to adhere to market protocols. The signatories who are members of the various DCs agree to put forth by April 30, 2010 a specific proposed framework<sup>9</sup> to implement observer status for CCPs and will urge the various DCs to act promptly thereon. The signatories commit, from time to time upon the request of the CCPs, to ask the DCs, in consultation with Supervisors, to re-evaluate the CCPs' observer status to determine the appropriate membership role of CCPs.

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<sup>9</sup> Inclusion of CCPs active in credit default swap clearing as observers on various DCs will require amendments to the Credit Derivatives Determinations Committee Rules. Amendments of this type require a supermajority (80%) vote as well as a seven day public consultation period. The signatories who are on the various DCs will consult with the regulators on preparation of this framework.

## Annex D – Standardization

### 1) Credit, Interest Rate and Equity Derivatives

We commit to drive a high level of product, processing and legal standardization in each asset class with a goal of securing operational efficiency, mitigating operational risk and increasing the netting and clearing potential for appropriate products (recognizing that standardization is only one of a number of criteria for clearing eligibility). Accordingly, workstreams have been established to analyze existing, and where appropriate, potential opportunities for further standardization, and a standardization matrix will be completed in partnership with the Supervisors.

### 2) Equity Derivatives

A very significant portion of the Equity Derivatives market is highly standardized and is already traded on exchange and settled through a clearing house. The OTC portion of the Equity Derivatives Market consists of a number of different products at varying levels of standardization, complexity, and customization. Documentation standardization improvements will therefore vary by product and region.

We re-affirm our commitment to review, update and expand the 2002 Equity Definitions by December 31, 2010 in accordance with the Equity Documentation framework document published on January 30, 2009.

The project is multifaceted and includes:

- consolidation, review and updating of the 2002 Equity Definitions and subsequent master confirmation agreement (MCA) publications;
- expansion of existing 2002 Equity Definitions coverage to include a wider set of product types, pay offs and underliers; and
- introduction of a menu approach to facilitate standardization of contractual terms and product flexibility.

During the 2011 implementation of the 2010 Equity Definitions, the signatories commit to using the range of menu items as published in the 2010 Equity Definitions to create matrices and MCAs for products agreed by the industry.

We commit to providing verbal updates to the Supervisors on 2010 Equity Definitions progress on a six-weekly basis commencing March 31, 2010.

Alongside the 2010 Equity Definitions, we commit to complete the following MCA projects by April 30, 2010:

- European Interdealer Index Swap Annex (Annex EFIS);
- EMEA EM Options Annex (Interdealer); and
- European Interdealer Fair Value Swap Annex (Annex FVSS).

We will continue to monitor non-electronically eligible volume in order to identify product eligibility for documentation standardization, according to our previously committed 2% threshold. We will use this information to ensure that the products identified have appropriate coverage in the 2010 Equity Definitions so delivery of new MCAs can be prioritized after the 2010 Equity Definitions are published.

Furthermore, we commit, upon request from a relevant counterparty (dealer or buy-side), to review existing MCAs with the counterparty in order to determine if with respect to an existing MCA there exists a preference to have the relevant ISDA published MCA govern all relevant new transactions executed after an agreed future date in lieu of such existing MCA. If such preference exists, the parties commit to negotiate in good faith a new MCA utilizing the ISDA published MCA with such modifications as the parties may agree in good faith and will mutually agree whether to migrate existing transactions under the new MCA or to leave existing transactions under previously agreed MCAs until termination or maturity.

## **Annex E - Collateral**

In this letter we set out new goals in the areas of Portfolio Reconciliations and Dispute Resolution. We also commit to update the Roadmap for Collateral Management. In particular, addressing one of the top concerns of the Supervisors, we re-affirm our intention to develop an enhanced industry framework for resolving disputed margin calls. The industry has made good progress in developing and testing the initial Dispute Resolution Procedure (DRP). In addition to the DRP, which focuses on the resolution of disputes after they have occurred, market participants recognize that disputes must also be tackled by prevention and increased escalation to regulators. The new commitments below reflect a multi-pronged strategy to address margin disputes, including measures designed to prevent, detect, resolve and report them to regulators.

The signatories are pleased to make the following new commitments:

### **1) Collateral Roadmap**

We commit to update the Roadmap for Collateral Management by April 15, 2010 based on the recommendations from the Independent Amount white paper (March 1, 2010) and the Market Review of Collateralization (March 1, 2010). Because of the wide-ranging nature of those recommendations, we will seek engagement from dealers, end users, custodians, regulators and legislators as appropriate in order to determine the best path towards implementation.

### **2) Portfolio Reconciliation**

The commitments already made by the industry with respect to Portfolio Reconciliation have proven effective at reducing the incidence and size of margin disputes.<sup>10</sup> In addition, ISDA has published a Feasibility Study for Extending Collateralized Portfolio Reconciliations (December 2009) and the follow-on Implementation Plan for Wider Market Roll-out (February 2010).<sup>11</sup> Consistent with those recent publications, we commit that:

- a) The signatories will undertake reconciliation (bilateral where possible and otherwise unilateral)<sup>12</sup> of collateralized portfolios with any OTC counterparty comprising more than 1,000 trades at least monthly by June 30, 2010.
- b) Signatory firms will expand the current monthly Portfolio Reconciliation reports submitted to the Supervisors to reflect the above commitment by July 31, 2010.

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<sup>10</sup> This is illustrated by the dispute reporting provided in private by firms to their regulators showing dispute levels significantly reduced from a year ago.

<sup>11</sup> These documents embody a response to recommendation V-10 of "Containing Systemic Risk: The Road to Reform" (CRMPG III, August 2008).

<sup>12</sup> The majority of smaller portfolios are between G14 Members and end users, not all of whom are equipped to perform bilateral portfolio reconciliation (where both parties work together using a central reconciliation service to resolve trade level differences). Therefore, although bilateral reconciliation is preferred, as a fallback this commitment is based on a unilateral reconciliation performed by the dealer. In order to promote the extension of portfolio reconciliation discipline more deeply into the wider market, the only practical solution is for dealers to perform the reconciliation for both parties where necessary. In order for a dealer to perform a unilateral reconciliation, a dealer's counterparty needs to provide a data file representing such counterparty's view of the portfolio in a reconcilable and standard format. ISDA has published Collateralized Portfolio Reconciliation Best Practices and data Minimum Market Standards to guide the market in this respect. Dealers will use commercially reasonable efforts to gain the cooperation of their counterparts in obtaining these files. The degree to which these requests are satisfied will be made transparent in the expanded portfolio reconciliation reporting provided to regulators, and after a period of several months industry participants and regulators should review cooperation levels.

### 3) Dispute Resolution

Market experience has shown that although disputed margin calls may need to be addressed by formal methods of dispute resolution in some rare circumstances, a larger proportion of dispute events can be addressed by prevention and escalation to regulators. Therefore we make the commitments below which reflect the three distinct ways in which the risks of disputed margin calls must be addressed:

a) Preventing Disputes From Arising

As described above under “Portfolio Reconciliation”.

b) Detecting Disputes Early and Resolving Them Definitively

The DRP continues to undergo the process of testing and further refinement commenced in Q4 2009. We commit to provide regular updates for each phase of the DRP evolution with the intention to complete this process by September 30, 2010.

c) Reporting Disputed Collateral and Exposure Amounts

We commit to develop consistent reporting that provides the Supervisors with the ability to assess the top margin disputes that potentially pose significant risk by May 31, 2010. We will provide a pro forma template for such reporting to the Supervisors by April 15, 2010 to seek their input on content and presentation.<sup>13</sup>

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<sup>13</sup> Industry practitioners will work with regulators over coming weeks to establish the appropriate reporting criteria and thresholds. The intention is to identify margin disputes of significance. Included in this consideration for materiality are likely to be dispute scale (disputes exceeding an established amount) and dispute persistence (disputes aged over an established number of days).

## Annex F - Operational Efficiency Targets

### 1) Credit Derivatives

#### a) Central Settlement

The Credit Derivatives market has benefitted from the increased usage of central settlement,<sup>14</sup> and industry participants remain committed to settlement automation. The quality of the existing bilateral settlement mechanisms, coupled with the likely increased penetration of clearing into the Credit Derivatives market, limits the benefits associated with any additional central settlement service beyond the existing use of CLS. As a consequence, the industry's resources will focus on the resolution of the other commitments identified within this letter.

#### b) Submission Timeliness/Matching

MarkitSERV remains the primary service provider within the Credit Derivatives realm, with more than 99% of electronically confirmed trades being processed on MarkitSERV and greater than 90% of these trades confirmed electronically on trade date. We reiterate our commitment to achieving T+0 submission and matching.

Given the significant architectural changes to the Credit Derivatives infrastructure in support of our efforts to achieve (i) interoperability with clearing solutions and (ii) trade date matching through improvements to the novation consent process and associated technology enhancements, we commit to an ongoing periodic review of existing commitments for both T+0 submission (currently 90%) and T+2 matching (currently 94%), for electronically eligible transactions, with the Supervisors.

### 2) Equity Derivatives

#### a) Electronic Eligibility

We re-affirm our commitment to set blended targets for electronically eligible OTC Equity Derivative transactions. For purposes of measuring targets, confirmations that are deemed eligible for inclusion (Electronically Eligible Confirmations) will include:

- i) confirmations for products (Electronically Eligible Products) that;
  - A) have an ISDA published MCA (irrespective of whether such ISDA published form or pre-existing bilateral form is used),<sup>15</sup> and
  - B) can be matched on an electronic platform; and
- ii) confirmations of Confirmable Lifecycle Events<sup>16</sup> for transactions which were executed on an electronic platform under existing bilateral MCAs but for which an ISDA MCA is subsequently published and which are currently confirmable on

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<sup>14</sup> 79% of all CDS trades in the Warehouse Trust were centrally settled for the December 2009 quarterly roll Electronic Confirmation Targets Submission.

<sup>15</sup> Products which do not have an ISDA published MCA will not be included in this target irrespective of whether a bilateral MCA exists.

<sup>16</sup> Confirmable Lifecycle Events will be identified in the Electronic Eligibility Matrix.

an electronic platform will be deemed Electronically Eligible Confirmations as of the date that the relevant product becomes an Electronically Eligible Product. Confirmations of Confirmable Lifecycle Events for transactions that were originally confirmed on paper will not be deemed Electronically Eligible Confirmations.

b) Electronic Confirmation Targets

We commit to processing, by June 30, 2010, 75% of Electronically Eligible Confirmations on an electronic platform. We further commit to increasing this target to 80% by September 30, 2010.

Furthermore, we commit to publishing an Electronic Eligibility Matrix<sup>17</sup> of Electronically Eligible Products and Confirmable Lifecycle Events by March 1, 2010 and will publish an updated version of this matrix on a quarterly basis.<sup>18</sup>

c) Submission Timeliness/Matching

We commit to the following targets:

- By June 30, 2010, 95% T+1 submission and 95% T+3 matching of global options and variance swaps between G14 Members for Electronically Eligible Confirmations processed on an electronic platform.
- By June 30, 2010, 70% T+1 submission and 75% T+5 matching of Discrete total return swaps<sup>19</sup> between G14 Members for Electronically Eligible Confirmations processed on an electronic platform.
- By September 30, 2010, 90% T+1 submission and 90% T+5 matching for G14 Members versus all counterparties for Electronically Eligible Confirmations processed on an electronic platform.

d) Confirmation Backlog Reduction

By June 30, 2010, we commit that outstanding confirmations aged more than 30 calendar days are not to exceed 1 business day of trading volume based on average daily volume in the prior three months.

e) Cash Flow Matching

We commit to publishing a cash flow matching implementation plan to the Supervisors by March 31, 2010 with a further commitment to deliver cash flow matching functionality by December 31, 2010.

3) Interest Rate Derivatives

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<sup>17</sup> The matrix will be published on the ISDA website on March 1, 2010 and on a quarterly basis thereafter.

<sup>18</sup> New products will be deemed Electronically Eligible Products 90 days following the date on which both an ISDA MCA has been published and such product is supported by an electronic platform.

<sup>19</sup> As defined in the December 10, 2008 EFS Roadmap.

a) Central Settlement

The increased penetration of central clearing into the Interest Rate Derivatives market in 2010 will significantly reduce the volume and size of bilateral settlements between market participants. This reduction in bilateral activity will take place against a backdrop of strong existing risk management practices where only 0.59% of gross settlements have post-value date discrepancy<sup>20</sup> and 0.1% of these issues persist 30 days after settlement date. As a consequence, the industry's resources will be focused on the delivery of the other commitments identified in this letter. We will continue to monitor the incidence of post value date issues of gross settlements over time to ensure no risk mitigating initiatives are required.

b) Rates Allocation Commitment

MarkitSERV will deliver electronic allocation delivery functionality consistent with the requirements gathered at the Allocation Industry Working Group meetings. We will provide the Supervisors with a plan by March 31, 2010 to achieve this.

The scope of the project will include the ability for buy-side users to electronically submit allocations to dealers in either a single step, where allocations plus confirmation occur, or a two-step process, where electronic allocation delivery is distinct from confirmation. Further planned functionality caters to additional workflows where buy-side clients submit allocations directly on pending trades or where the system matches grouped allocations to dealer block trades. Confirmation of Independent Amount percentage at an allocation level will be in scope.

c) Electronic Confirmation Targets

We commit to the following electronic confirmation targets:

- By June 30, 2010, 93% of electronically eligible confirmable events with G14 Members will be processed on electronic platforms, with a further commitment to achieve 95% by December 31, 2010; and
- By June 30, 2010, 60% of electronically eligible confirmable events with all other participants will be processed on electronic platforms with a further commitment to provide a plan for the implementation of a more streamlined process for low volume clients also by June 30, 2010.<sup>21</sup>

d) Submission Timeliness/Matching

The launch of MarkitSERV's interoperable confirmation service enables market participants to use DTCC Deriv/SERV or Markitwire, regardless of what service their counterparty uses. Interoperability eliminates the requirement to process confirmations independently on Markitwire or DTCC/DerivSERV and we believe the process should be subject to new performance targets. With 87% of electronically confirmed trades being

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<sup>20</sup> A post-value date discrepancy may be defined as any mismatch in settlement amounts or value-date or a failure to settle funds on the date expected. Such discrepancies are typically investigated and resolved by operational control groups within the respective organizations.

<sup>21</sup> The Rates Implementation Group is performing analysis on the non-G14 Member volume to understand the material impact of those customers executing 4 or fewer electronically eligible trades per month.

processed on Markitwire and greater than 98% of these trades confirmed on trade date, we commit to the following targets upon adoption of MarkitSERV interoperability, with a commitment to review and re-evaluate these targets with Supervisors on a quarterly basis to get to a steady state and progress toward T+0 submission and matching:

- Submit 90% of electronic confirmations no later than T+0 business days by September 30, 2010.
- Match 97% of electronic confirmations no later than T+2 business days by September 30, 2010.

e) Confirmation Backlog Reduction

By April 30, 2010: We commit that electronic and paper outstanding confirmations aged more than 30 calendar days are not to exceed 0.20 business day of trading volume based on the prior three months rolling volume and we commit to continue reporting these targets on a monthly basis. We commit to review and re-evaluate this target with Supervisors on a quarterly basis to get to a steady state and progress towards T+0 matching.