

July 31, 2008

Mr. Timothy Geithner
President
Federal Reserve Bank of New York
33 Liberty Street, 10F
New York, NY 10045

Dear Mr. Geithner:

Following our June 9 meeting and our March 27 letter, we are pleased to update you on our continued progress toward improving Credit and Equity Derivative market participant practices and expanding our coordinated effort to additional asset classes as well as to the Collateral Management area. As outlined below, our major 2008 and 2009 operational goals include deliverables that represent a substantial and aggressive increase in our commitments. Additional details are available in the Supplement to this letter.

The Major Dealers and buy-side institutions in the Operations Management Group (the "OMG")¹ are committed to achieving derivative processing scalability through electronic matching on Trade Date, backlog reductions and by partnering with electronic service providers to optimize the use and development of electronic services. Concrete tactical steps toward achieving these broad goals are put forth below for each of the asset classes. The strategic roadmap which refines the broader approach and timelines will be further articulated in an October letter, where applicable.

The International Swaps and Derivatives Association, Inc. (ISDA), Managed Funds Association (MFA), and the Asset Management Group of the Securities Industry and Financial Markets Association (SIFMA) will actively work with their constituents and other market participants to educate the marketplace on the goals in the letter.

In the interest of full transparency and early detection, the Major Dealers also commit to report failure to achieve agreed targets to their Supervisors in advance of metric publication.

Credit Derivatives Market

- Electronic Matching:
 - Strategic Roadmap: By October 31, 2008: The Major Dealers and buy-side participants in the Credit Steering Committee ("CSC")² commit to deliver the strategic roadmap to achieve confirmation matching of electronically eligible trades on Trade Date. The roadmap will identify and agree upon the processes to facilitate this objective. The roadmap will include major milestones to the realization of this goal and the timeframes for reaching each milestone.
 - Matching/Submission Rates: By December 31, 2008: Major Dealers and buy-side participants in the OMG commit to improve the prior DTCC matching and submission targets from (i) 90% to 92% submission to DTCC on T+1, (ii) 90% to 92% matching at DTCC without modification, and (iii) 92% to 95% matching at DTCC by T+5.
- Aged Outstanding Confirmations: Immediately: The Major Dealers commit to a more aggressive target whereby unconfirmed confirmations aged more than 30 calendar days are not to exceed 1 business day of trading volume based on average daily volume in February, March and April 2008.
- Electronic Novation Consent Processing: By December 31, 2008: As committed in the March 27, 2008 letter, all market participants will be required to submit and manage novation requests for electronically eligible trades via electronic processing platforms and comply with their firm commitment under the ISDA Novation Protocol to processing requests only on the day consent is granted. The effective date for implementation is December 31, 2008 and after this date the Major Dealers will not consent to proposed novations where the request is sent via email. Where possible, the Major Dealers will utilize trade records contained in the Trade Information Warehouse.

¹ The OMG includes buy-side institutions and alternative investment firms such as AllianceBernstein, BlueMountain Capital Management LLC, Citadel Investment Group, L.L.C., Pacific Investment Management Company, LLC, and GLG Partners LP.

² The membership and makeup of the committee is detailed in the Supplement to this letter

- Trade Compression: The methodology for compressing offsetting portfolios of the Major Dealers has been established by the CSC.
 - Index Product Compressions: Aggressive index tear-up cycles continue. These cycles are now occurring quarterly rather than bi-annually. The Major Dealers will include all eligible books in the ongoing process.
 - Single Name Compressions: The Major Dealers have developed a new process to achieve single name trade compression³. A joint venture between Markit and Creditex will facilitate the compression process which will commence in August 2008 and proceed on a continuous sector-by-sector basis. Results will be shared with Supervisors.
- Central Clearing: Ongoing: The Major Dealers remain committed to central clearing in the index, single name and index tranche products. Each Major Dealer commits to (i) support a clearing platform and (ii) utilize such platform to clear all eligible products where practicable. The Major Dealers continue to work on preparing the infrastructure to meet collateral, dispute resolution and operational requirements. US CDS Index products will launch by December 31, 2008; expansion to other products will begin in 2009.
 - In November 2004, the Bank for International Settlements Committee on Payments and Settlement System and Technical Committee of IOSCO issued a report titled “Recommendations for Central Counterparties” (the “BIS Recommendations”). The Major Dealers commit that any central clearing process in which they participate will comply with the BIS Recommendations.
- Auction Hardwiring: By December 31, 2008: ISDA plans to (i) publish an Auction Supplement to the Credit Derivative Definitions that applies the existing settlement auction methodology to the Credit Events and Reference Entities for most types of trades and (ii) administer a protocol to bring existing trades of these types onto the new standard. Categories not covered at this stage are being addressed separately; progress and timelines for these exceptions will be detailed once the Auction Supplement has been published.
- RED: The commitments set forth in the March 27, 2008 letter regarding RED code usage remain in force.
- Buy-Side Implementation Plan: Ongoing: Per the March 27, 2008 letter, the buy-side implementation plan was delivered to Supervisors in May. ISDA, MFA and SIFMA continue to work together to carry out the various elements of the plan and have held several educational events for market participants in order to promote the industry’s goals and commitments.

Equity Derivatives Market

- Electronic Matching: By January 31, 2009: The Major Dealers and buy-side institutions in the OMG commit that 75% of electronically eligible, confirmable transactions with all counterparties shall be processed on electronic platforms. Additional targets and timelines will be addressed in more detail in the October letter. This replaces the interdealer target set in the May 15, 2007 letter. The 50% of top 20 Client target set in the October 23, 2007 letter will remain in place until January 31, 2009.
 - To achieve this target, the Major Dealers and buy-side institutions in the OMG will encourage market participants who trade 10 or more eligible transactions in a month to onboard to an electronic platform within 90 days.
 - By September 30, 2008: “Electronically eligible transactions” are defined as all options and variance swaps in all regions that have a published ISDA Master Confirmation Agreement and includes all confirmable events that can be processed on an electronic matching platform. This revises the prior definition of electronically eligible transactions stated in the October 23, 2007 letter to include all options and all confirmable events.
- Aged Outstanding Confirmations: By January 31, 2009: The Major Dealers commit that electronic and paper outstanding confirmations aged more than 30 calendar days are not to exceed 3 business days of trading volume based on average daily volume in April, May and June 2008.
- Equity Swaps: By November 30, 2008: The OMG and the Equity Derivatives Implementation Group commit, for the financing and swap business, to set out methodology and strategy on how these transactions should be confirmed. This includes leveraging the equity swap templates recently published by ISDA for Europe and Asia Ex-Japan.

Interest Rate Derivatives Market

³ Mechanics of this product are detailed in the Supplement to this letter

- Electronic Matching: By October 31, 2008: The Major Dealers and buy-side institutions in the OMG commit that 65% of electronically eligible confirmable events with all counterparties shall be processed on electronic confirmation platforms. The group further commit that 75% of electronically eligible confirmable events with all counterparties shall be processed on electronic confirmation platforms by January 31, 2009. Electronically eligible transactions are defined as all confirmable events which can be processed on an electronic platform as of July 31, 2008 regardless of a counterparty's ability to electronically process the trade.
- Aged Outstanding Confirmations: By September 30, 2008: The Major Dealers commit that electronic and paper unconfirmed confirmations aged more than 30 calendar days are not to exceed 2 business days of trading volume based on average daily volume in April, May and June 2008.
- Trade Date Confirmation: The Major Dealers and buy-side institutions in the OMG continue to commit to the objective of confirmation on Trade Date.
- T+5 Trade Affirmation: The Major Dealers and buy-side institutions in the OMG commit to positively affirm all unconfirmed trades no later than T+5 business days. This includes the affirmation of significant financial trade details and may be done via phone, email or other electronic means as agreed bilaterally.
 - By September 30, 2008: The percentage of trades where significant financial trade details have been affirmed within T+5 will be reported to our Supervisors.

Commodities Market

- Electronic Matching: 2008 and beyond: The Major Dealers commit to advance the following projects:
 - By July 31, 2008: Increase the frequency of trade volume metrics and documentation metrics reporting from the current quarterly frequency to monthly;
 - By October 31, 2008 for month-end data as of September 30: Add product-specific breakouts to these metrics;
 - Ongoing: (i) participate in existing market participants forums, and (ii) engage both current commodities trade confirmation matching service providers and service providers active in other asset classes to develop a strategy for increasing counterparty matching rates;
 - By October 31, 2008: Establish a baseline for market participants' matching rates and targets to be followed by periodic checkpoints with the Supervisors in line with the increased rate of reporting statistics.
- Documentation Standardization: Second half of 2008 and 2009: The Major Dealers engaged in trading physically and/or financially settled instruments commit to advance the following projects through LEAP⁴ and ISDA (where applicable for each Major Dealer):
 - Promote further market adoption of LEAP Crude and Refined Products Master and ISDA Oil Annex
 - Amend LEAP Master Agreement and ISDA US Oil Annex to include Canadian refined products and crude oil pipeline business
 - Continue to support development of ISDA Emissions Annex
 - Promote further market adoption of other ISDA physical commodity product Annexes (e.g., the ISDA Global Physical Coal Annex)

Foreign Exchange Derivatives Market⁵

- Quarterly Metrics to Supervisors: By December 31, 2008: The Major Dealers will begin submitting quarterly metrics to the Supervisors on unexecuted derivative confirmations and related trade volume.

Collateral Management

- Best Practices for Collateralized Portfolio Reconciliation: By December 31, 2008: The Major Dealers commit to implement with one another the provisions of the *ISDA Best Practice Guidance for Collateralized Portfolio Reconciliation Between Derivative Market Professionals* (the "Best Practice Guidance")⁶. The four principal elements of this guidance state that:

⁴ Leadership for Energy Automated Processing. More information available on www.energyleap.org

⁵ Industry leadership representation for FX Derivatives also includes State Street Global Markets.

⁶ A copy of the Best Practice Guidance is provided in the Supplement to this letter.

- Portfolios of OTC derivatives documented under an ISDA Master Agreement and Credit Support Annex will be subject to weekly portfolio reconciliation (with transitional arrangements where a weekly frequency is not immediately practical)
 - Firms will have adequate resources to identify and resolve portfolio differences on a timely basis
 - Escalation procedures for material differences will be maintained within each firm and where necessary, prompt communication between the management of counterparty firms will occur
 - Firms will collect and report metrics to Supervisors
- Review of Approaches to Margin Dispute Resolution: The ISDA Board of Directors has established a working group to (i) review the margin dispute resolution language and practices in common use across the derivative market and (ii) recommend alternative and improved approaches. ISDA will work towards completion of the effort by April 30, 2009.

We look forward to reporting on our progress toward these aggressive goals as we continue to strengthen operational efficiency across the full suite of derivative products.

Yours Sincerely from the Senior Managements of:

Bank of America, N.A.
 Barclays Capital
 BNP Paribas
 Citigroup
 Credit Suisse
 Deutsche Bank AG
 Dresdner Kleinwort
 Goldman, Sachs & Co.
 HSBC Group

JP Morgan Chase
 Lehman Brothers
 Merrill Lynch & Co.
 Morgan Stanley
 The Royal Bank of Scotland Group
 Société Générale
 UBS AG
 Wachovia Bank, N.A.

International Swaps and Derivatives Association, Inc. (ISDA)
 Managed Funds Association (MFA)
 Asset Management Group of the Securities Industry and Financial Markets Association (SIFMA)