



ISDA - INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION, INC.

NEWS RELEASE

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ISDA Launches Initiative to Promote Portfolio Reconciliation and Reduce Risk in Asia Pacific Region

HONG KONG, Monday, January 3, 2011 — The International Swaps and Derivatives Association, Inc. (ISDA) today published the Asia Pacific Portfolio Reconciliation Memorandum of Understanding (MoU) to promote portfolio reconciliation and reduce risk in the Asia Pacific region. The objective of the MoU is to outline the process and frequency with which participating firms reconcile portfolios of collateralized derivatives transactions.

“Today, portfolio reconciliation is playing a key role in operational risk management and has already become market best practice in the west following the Financial Crisis,” said Keith Noyes, Regional Director, Asia Pacific, ISDA. “ISDA is pleased with the efforts of the Working Group and the participating firms in driving global portfolio reconciliation initiatives in Asia Pacific through the MoU. ISDA will continue to work collaboratively with regulators to further advance the understanding and promotion of better collateral management practices.”

The important characteristics of the MoU are:

- It is customized for Asia Pacific members to implement best practices;
- Facilitates a proactive approach that enables firms to identify and resolve discrepancies and risk exposures quickly and accurately;
- Contains flexible reconciliation choices and minimal data field requirements for ease of implementation. Firms can select a minimum of only three counterparties with whom to reconcile or choose to reconcile with all MoU participants.

With the support of the ISDA Collateral Steering Committee, the ISDA Asia Pacific Collateral Management Operations Working Group drafted the MoU standards in early 2010. This was followed by two successful pilot runs. During the two pilot runs participating firms, including both global and Asia Pacific-based firms, acknowledged the benefits of portfolio reconciliation which led to resolution of booking and mark-to-market discrepancies between counterparties.

OTC collateral agreements, such as the ISDA Credit Support Annex (CSA), are widely used to manage counterparty credit risks. However, the effective implementation of CSAs can be compromised if post-trade activities lead to discrepancies between the system records of the two firms.

Portfolio reconciliation was established to mitigate this risk by providing the necessary portfolio transparency to reduce and resolve collateral disputes. It provides baseline comparison of mark-to-market valuations. The process pinpoints discrepancies more readily and provides the ability to focus resolution discussions on problem areas by matching at the trade level, helping to ensure the accuracy and precision of cash flows to aid in overall risk management.

The Asia Pacific Portfolio Reconciliation Memorandum of Understanding is available on the ISDA website: www.isda.org.

About ISDA

ISDA, which represents participants in the privately negotiated derivatives industry, is among the world's largest global financial trade associations as measured by number of member firms. ISDA was chartered in 1985, and today has over 830 member institutions from 59 countries on six continents. These 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. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

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