

June 2, 2009

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 and buy-side institutions<sup>1</sup> have been working collaboratively to deliver important structural changes to the global OTC Credit, Interest Rate and Equity derivatives markets (OTC Derivative Markets). We are writing to update you on these initiatives which reflect the extensive dialogue with supervisors globally in recent months. We have agreed upon a framework for OTC derivative risk management and market structure and are working expeditiously to deliver our commitments set forth below. These commitments address key concerns raised by supervisors and legislators globally, notably the G20, the European Commission and the U.S. Department of Treasury<sup>2</sup>.

This letter outlines our firm commitment towards strengthening the resilience and robustness of OTC infrastructure under the auspices of the ISDA Board Oversight Committee (IBOC) and its constituents and partners in conjunction with the Operations Management Group (OMG). We understand the need to act quickly and decisively to implement these important measures, recognizing the key strategic and systemic importance of the OTC Derivative Markets.

We are determined to implement changes to risk management, processing and transparency that will significantly transform the risk profile of these important financial markets, and deliver a risk management and processing infrastructure that includes the additional characteristics and benefits of a traditional clearance model. The OTC Derivative Markets provide important flexibility in terms of products and execution, and will benefit from the strengthening of infrastructure described above.

We reiterate our commitment to reducing systemic risk in the OTC Derivative Markets through the following:

- Implementing data repositories for non-cleared transactions in these markets to ensure appropriate transparency and disclosure, and to assist global supervisors with oversight and surveillance activities.
- Clearing for OTC standardized derivative products in these markets.
- Enabling customer access to clearing through either direct access as a clearing member or via indirect access, including the benefits of initial margin segregation and position portability.
- Delivering robust collateral and margining processes, including portfolio reconciliations, metrics on position and market value breaks, and improved dispute resolution mechanics.
- Updating industry governance to be more inclusive of buy-side participants.
- Continuing to drive improvement in industry infrastructure as well as to engage and partner with supervisors, globally, to expand upon the substantial improvements that have developed since 2005.

Taking each of these important goals in turn:

### **Reporting of Trades in Centralized Repositories**

To further increase market transparency so that the supervisory community has access to relevant data and the public at large has appropriate access to relevant aggregate data, we commit, for all trades to which we are a party, and that are not cleared through a CCP to: (i) universal recording of CDS trades in a trade repository by July 17, 2009, (ii) universal recording of Interest Rate Derivative (Rates) trades in a trade repository by December 31, 2009, and (iii) universal recording of OTC Equity Derivative (Equities) trades in a trade repository by July 31, 2010. We are committed to enriching the data reported to supervisors as expeditiously as possible to make the

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<sup>1</sup> In the case of asset management firms, these commitments are subject to the applicable fiduciary responsibilities of such firms, including any and all client-specific duties and obligations.

<sup>2</sup> Copy of the Treasury press release and letter to Senate Majority Leader Harry Reid available at <http://www.ustreas.gov/press/releases/tg129.htm>.

metrics more meaningful as a risk management tool. We view the recording of trades in trade repositories as an industry best practice. We strongly encourage all non-signatory market participants to meet these goals within sixty days from compliance by the signatories to this letter.

### **Central Clearing**

We are actively engaging with CCPs to broaden the range of cleared products and market participants. Products that will be added in 2009 include liquid single name CDS and Overnight Indexed Swaps (OIS). Further products will be added in 2010, including tranche CDS. We fully understand and support that CCPs will be regulated with particular emphasis on financial strength to absorb market shocks including bankruptcy of a major market participant. As CCPs expand their offerings, we will work with supervisors to deliver a set of performance targets for CCP usage by August 31, 2009.

### **Customer Access to CDS Clearing Solutions**

It is our goal to achieve buy-side access to CDS clearing (through either direct CCP membership or customer clearing) with customer initial margin segregation and portability of customer transactions no later than December 15, 2009. The legal and regulatory analysis to achieve buy-side access will be completed and delivered to supervisors by June 30, 2009. A joint buy- and sell-side group coordinated through IBOC initiated the analysis. If through the analysis we confirm or determine that regulatory and/or legislative changes are required to accomplish buy-side access to CDS clearing with customer initial margin segregation and portability of customer transactions, we will seek assistance from supervisors. In connection with the foregoing, strategic commercial review will be performed by individual institutions which will consider, among other things, tax, legal, regulatory, risk management, interoperability among existing CCPs, implementation, and ongoing operational costs, capital, margining and compliance implications. Subject to the strategic commercial review, dealers who provide customer clearing services in the ordinary course of their businesses, agree to provide clearing services through CCPs that have (i) broad buy-side and dealer support and (ii) a commitment to develop viable direct and indirect buy-side clearing models. In addition, the market needs to accomplish several work streams including the roll out of Restructuring Credit Event Protocol (small bang) and of single name and index clearing for the U.S./Europe and build out of operational infrastructures industry-wide.

### **Collateral Management**

By June 30, 2009, the dealer signatories to this letter will perform daily electronic portfolio reconciliation of all collateralized OTC inter-dealer derivative transactions. This will mean that combined with other regular portfolio reconciliations between dealers and others, in the period between October 2008 to June 2009, the OTC derivative market will have progressed from a state where there was no well-defined standard for reconciling portfolios to one where 70% of the outstanding transactions across all derivative asset classes are reconciled frequently. In addition to the daily inter-dealer reconciliations, we will also work to have a market-wide solution for improved resolution of disputed margin calls by September 30, 2009, with an implementation schedule to follow.

### **Industry Governance**

To reflect the importance of both buy-side and sell-side market views and to ensure proper input from all derivative industry participants, we are broadening the governance structure and changing the organization of relevant derivative market committees. The new structure will improve transparency, coordination and create a decision making process that incorporates the views of the broad market base.<sup>3</sup> The objective of the new governance model is to ensure consensus. Where consensus is not possible, decisions will require a super-majority vote to become binding so as neither buy- nor sell-side participants in the market can dominate decision making. Committees will be comprised of members from the business, operations and legal areas from the buy- and sell-side community across asset classes and representing a range of geographical perspectives including North America and Europe. As the undersigned commit to work on further expansion of buy-side inclusion in industry agenda-setting and decision-making processes, SIFMA and MFA will partner with the OMG and IBOC to provide buy-side commentary on the model.

### **Operational Improvements**

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<sup>3</sup> For further detail on the changes to industry governance, see [www.isda.org](http://www.isda.org) for draft of re-alignment plans. Publication date is still TBD.

We remain focused on four key operational areas for improvement: (i) submission and matching with an end goal of T+0 confirmation, (ii) increased electronic processing across asset classes, (iii) increased standardization of confirmation documentation with specific focus on Equities, and (iv) continued focus on aged confirmation reduction targets. These common themes, among others, are reflected in the asset class-specific targets in the appendix. Ongoing commitments set forth in the October letter that are not explicitly referenced in the appendix remain in full effect.

In conclusion, we look forward to reporting on our progress toward strengthening risk management practices and enhancing market transparency across the OTC Derivative Market. We believe that the commitments in the appendix will continue these major advances, initiated with our first supervisor letter in 2005, and we look forward to continued dialogue with you.

**Yours sincerely from the Senior Managements of:**

AllianceBernstein  
Bank of America-Merrill Lynch  
Barclays Capital  
BlueMountain Capital Management LLC  
BNP Paribas  
Citadel Investment Group, L.L.C.  
Citigroup  
Credit Suisse  
Deutsche Bank AG  
D. E. Shaw & Co., L.P.  
DW Investment Management LP  
Dresdner Kleinwort  
GLG Partners LP  
Goldman, Sachs & Co.

Goldman Sachs Asset Management  
HSBC Group  
International Swaps and Derivatives Association, Inc.  
JP Morgan Chase  
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 letters sent to:

Board of Governors of the Federal Reserve System  
Connecticut State Banking Department  
Federal Deposit Insurance Corporation  
Federal Reserve Bank of Richmond  
French Secretariat General de la Commission Bancaire  
German Federal Financial Supervisory Authority  
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

## APPENDIX

Significant achievements across Credit, Equity and Interest Rates Derivatives in systemic risk reduction since we last reported include:

- Clearing: First CCP went live for US index CDS as of March, 2009. Additional central counterparties have been launched in 2009 for Credit Derivative (CDS) markets. To date, \$80 trillion in global Rates and \$600 billion in U.S. CDS have been cleared. CDS CCP clearing will expand to European CDS by July 31, 2009 as previously committed to the European Commission.
- Credit Event Settlement: Auction hardwiring completed April 8, 2009, to allow for auction-based settlement of CDS; More than 40 Credit Events processed globally since October, 2008.
- Trade Compression: Since October, 2008, the gross notional value of outstanding CDS and Rates trades each decreased by approximately \$15 trillion, through tear up cycles. Progress is ongoing and aggressive cycles continue.
- Electronic Processing: Electronic matching rates of eligible confirmation events increased from 69% to 85% in Equities, from 70% to 78% for Rates, and from 96% to 98% in CDS.<sup>4</sup> Strong progress continues.
- Collateralized Portfolio Reconciliation: Weekly (and in many cases, daily) reconciliation between the undersigned dealers of collateralized portfolios since December, 2008.
- Confirmation Backlog Reductions: Aged confirmations declined steadily as a fraction of business days' outstanding from 2.4 to 1.3 days for Equities, 1.3 to 0.7 days for Rates, and from 0.3 to 0.1 days for CDS<sup>5</sup> as the industry approaches a steady state in these asset classes.

### Credit Derivatives Market

- Electronic Processing
  - In conjunction with the IBOC and Credit Steering Committee, the OMG and Credit Implementation Group (CIG) will continue to develop updated electronic processing models for all trade types, in support of the performance targets below and our commitment to clearing.
  - Submission Timeliness: By December 31, 2009: The OMG commits to 90% T+0 submission for all electronically eligible transactions.
  - Matching: The OMG commits to T+0 matching for clearing eligible transactions. By December 31, 2009: In addition, the OMG commits to 94% T+2 matching for all electronically eligible transactions to ensure timely settlement of cash flows.
  - Allocations: T+0 matching is dependent on buy-side participants submitting accurate allocation details on trade date. The OMG commits to supply accurate allocation details on trade date via submission to an electronic affirmation or confirmation platform.
  - Electronically Eligible Transactions: By September 30, 2009: The OMG commits that all electronically eligible new trades and novations where one or more parties to the transaction are OMG members must be confirmed on DTCC or another electronic platform.
- Novations
  - By June 30, 2009: In conjunction with the IBOC, Credit Steering Committee, and OTC derivative legal community, the OMG commits to agree a plan and implementation schedule to change the novation process such that the action of consent will achieve a valid legal confirmation.
- Universal Reporting of Credit Derivative Trades in Repositories: By July 17, 2009: We commit to report all credit derivative trade records to a trade repository. These trade record registrations will be updated weekly.
- Confirmation Backlog Reduction: Credit derivative market participants have cleared the material backlog.<sup>6</sup>
  - OMG dealers will continue to submit these metrics:
    - The number of electronically eligible trades outstanding over 30 days. The business as usual target for electronically eligible trades is zero outstanding over 30 days.
    - The number of non-electronically eligible trades outstanding over 30 days.

<sup>4</sup> Date range spans from October, 2008 through April, 2009.

<sup>5</sup> Date range spans from October, 2008 through April, 2009.

<sup>6</sup> Unexecuted confirmations in dealer portfolios aged more than 30 days have dropped from 97,650 outstanding in September, 2005, to 2,479 in March, 2009. Over the same time period, total monthly trade volume has increased from 130,004 to 408,472. Business days volume outstanding over 30 days has dropped from 16.5 to 0.1 over this time period.

## Equity Derivatives Market

- **Electronic Processing:** The OMG re-affirms its commitment to materially increase the percentage of equity derivative transactions that can be processed electronically, with an industry target of 50% of total volume able to be matched on an electronic platform by December 31, 2009. While the 50% target focuses on the electronic processing goal, the longer term objective is to increase the percentage of electronically eligible trades. As not all of the products included in this target are electronically eligible due to some being transacted under bespoke MCAs, the OMG commits to an industry target of 40% of total volume that is defined as electronically eligible by December 31, 2009.
  - **Electronic Confirmation Targets:**
    - The OMG reaffirms its commitment stated in the December 10, 2008 EFS Roadmap, that by December 31, 2009: (i) the OMG dealers commit to electronically matching 80% of electronically eligible events of the interdealer Discrete TRS product with an interim target set at 65% by October 31, 2009, and (ii) the OMG commits to electronically matching 50% of electronically eligible events of the dealer to client Discrete TRS product with an interim target set at 25% by October 31, 2009.
    - By January 31, 2010: The OMG dealers commit to:
      - Set a target for electronically eligible OTC equity derivative transactions, including interdealer discrete Total Return Swaps (TRS), as defined in the December 10, 2008 Equity Derivative Market, Equity Financing Swap letter. The blended electronic confirmation target will replace the current electronic matching targets. Electronically eligible volume will increase to include the following products according to the below timetable: (i) Inter-dealer TRS with U.S. and European underliers (share and index) from October 1, 2009,<sup>7</sup> (ii) Inter-dealer TRS with Asia ex-Japan (Open and Closed markets) underliers (share and index) from December 1, 2009,<sup>8</sup> and (iii) U.S. Client OTC Options from December 31, 2009.<sup>9</sup> The OMG dealers agree to use, in a form substantially similar to the published version, the above and future ISDA-published MCAs, for new and existing clients where no executed MCA currently exists. The OMG and ISDA reaffirm the previous commitment to simplify the current documentation framework for equity derivatives as committed to in the equity documentation framework proposal published January 30, 2009.
      - The OMG dealers will set a separate target for matching of dealer to client TRS products<sup>10</sup> not currently covered under ISDA-published MCAs<sup>11</sup> which will include (i) dealer to client TRS with U.S. underliers covered by bespoke dealer MCAs from October 1, 2009 and (ii) dealer to client TRS with European underliers covered by bespoke dealer MCAs from December 1, 2009.
    - By September 30, 2009: The OMG commits to match 95% of electronically eligible transactions between OMG members by T+4.
  - **Master Confirmation Prioritization:** The OMG, ISDA and Equity Steering Committee (ESC) will determine appropriateness for standardization prioritization based on the following: (i) consideration of products identified as making up an average of 2% or more of OMG reporting Dealers' non-electronically eligible volume over the previous six month period and (ii) determination of whether a product has reasonable likelihood of continued volumes going forward as identified by the ESC. The OMG dealers will continue to report the current mix of non-electronically eligible transactions to the regulators on a quarterly basis.
  - **Trade Reporting and Transparency:** By July 31, 2010: The OMG commits to implement a centralized reporting infrastructure for all OTC equity derivatives. This infrastructure will include (i) summary trade details for all OTC equity derivative products, and (ii) a structure to report the information centrally. Whilst this is our strategic goal, in the interim, by September 30, 2009, the OMG dealers commit to report the following information on a quarterly basis: total notional size by product type of the OTC equity derivative portfolio with: (i) other OMG dealers, and (ii) all other market participants.

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<sup>7</sup> Date contingent on the publication of the ISDA MCA template.

<sup>8</sup> See prior note.

<sup>9</sup> Date contingent on publication of the ISDA MCA template expected September 30, 2009.

<sup>10</sup> These products will be excluded from the blended rate target set above.

<sup>11</sup> As these products do not meet the formal definition of electronically eligible due to the bespoke nature of their MCA agreements, they will not be included in the blended target set above.

- Confirmation Backlog Reduction: By October 31, 2009: The OMG dealers commit that outstanding confirmations aged more than 30 calendar days are not to exceed 1.5 business days of trading volume based on average daily volume in the prior 3 months.

## Interest Rate Derivatives Market

- Electronic Processing
  - Electronic Confirmation Targets: Quarterly: The OMG commits to review and re-evaluate the 75% confirmation target set in the October letter with supervisors. The OMG dealers will work with supervisors to provide more detailed reporting on the volume of transactions confirmed manually. The scope of this reporting will be agreed by June 30, 2009 and implemented for the July 31, 2009, month end reporting.
  - Submission Timeliness/Matching: Beginning July 31, 2009: The OMG dealers commit to begin reporting submission and matching data for electronically eligible volume in both MarkitWire and DTCC Deriv/SERV. To date, the interest rate derivatives industry has seen great success around submission and matching rates in MarkitWire which processes 75% of all electronic trade volume with T+0 submission and matching rates of 99% and 97%, respectively, for the industry. These metrics indicate a business as usual state for MarkitWire trades between dealers for Trade Date submission and matching and therefore, this information will be reported without setting a specific target. In an effort to better accommodate the needs of our broad and diverse client base, in addition to supporting client volume on MarkitWire, the rates industry processes 25% of its electronic trade volume in DTCC Deriv/SERV which sees T+0 submission and matching rates of 37% and 4%, respectively, for the industry.
  - The OMG commits to the following targets on DTCC Deriv/SERV with a commitment to review and re-evaluate this target with supervisors on a quarterly basis to get to a steady state and progress toward T+0 submission and matching:
    - Submit 75% of electronic confirmations no later than T+1 business days by October 31, 2009.
    - Match 75% of electronic confirmations no later than T+3 business days by October 31, 2009.
  - Submission Accuracy: By July 31, 2009: The OMG dealers commit to begin reporting submission accuracy data for both MarkitWire and DTCC Deriv/SERV volume, showing each service separately, for July 2009 month end reporting. Due to the nature of the MarkitWire affirmation process, accuracy of these trades is, by definition, 100%.
  - Confirmation Automation Infrastructure:<sup>12</sup>
    - By June 30, 2009: The OMG commits to deliver a plan including an implementation timeline to roll-out automated allocation functionality that is interoperable across service provider platforms.
    - By November 30, 2009: The OMG commits to deliver a plan for adoption, reporting and enforcement of the electronic novation consent process upon MarkitSERV's roll out of (i) a single step novation confirmation / novation consent process for electronically processed Interest Rate Swaps and Swap Options where the initial trade has been confirmed on MarkitWire<sup>13</sup> and<sup>14</sup> (ii) additional novation consent functionality including expansion to cover trades initially confirmed on DTCC Deriv/SERV, and (iii) a consent-only mechanism for non-electronic trades.
    - Upon delivery by MarkitSERV of an interoperable confirmation process between existing MarkitWire and DTCC Deriv/SERV legal confirmation platforms, the OMG commits to use this functionality for all eligible products within 90 days of its release on the electronic platform. As per the October letter, OMG dealers will provide a monthly list to supervisors of counterparties not using an electronic platform who are trading more than 20 eligible trades per month based on a three month average.
- Trade Reporting and Transparency: By December 31, 2009: The OMG commits to implement a centralized reporting infrastructure for all interest rate derivatives. This infrastructure will include (i) summary trade details for all interest rate products, and (ii) a structure to report the information centrally. A plan for this centralized reporting infrastructure shall be delivered by September 30, 2009. In the interim, by May 31, 2009, as part of the monthly metrics provided to supervisors, the OMG dealers commit to report the following trade information:

<sup>12</sup> The following deliverables are subject to regulatory approval of MarkitSERV.

<sup>13</sup> MarkitSERV roll out is expected by July 31, 2009.

<sup>14</sup> The delivery date for additional products will be determined following the initial implementation.

- Total notional size of the interest rate derivative portfolio at the end of each month between OMG dealers and: (i) other OMG dealers, (ii) the LCH.Clearnet's SwapClear service, and (iii) all other market participants.
- Maturity profile across tenor buckets between OMG dealers and other market participants.
- **Central Counterparty:** By September 30, 2009:
  - In addition to the current 19 global SwapClear members,<sup>15</sup> three additional dealers commit to go live with clearing. SwapClear will also be extended to include the following transaction types: (i) Additional tenors for GBP, USD, Euro and Yen to 50 years and CHF to 30yr, (ii) Swaps with Short Stubs, (iii) Swaps with Negative Rates, and (iv) Overnight Index Swaps.
  - Enhancements to the default management process include improvements in LCH's ability to upload trades quickly into the default management system for risk neutralization and to increase the capacity of the number of trades that can be efficiently handled in the default scenario for all SwapClear members.
  - In an effort to further reduce operational risk and overhead especially in the event of a default of its' members, LCH.Clearnet is working on a prototype with TriOptima to convert the existing weekend portfolio compression process to tear up SwapClear trades intraday. LCH.Clearnet SwapClear members will run portfolio compression monthly once the prototype is successfully tested.
- **Portfolio Compression**
  - The OMG dealers commit to continue to participate in multi-lateral trade compression for the main currency cycles (EUR, GBP, JPY and USD).<sup>16</sup> Efforts should extend, where possible, to other currencies. From November 1, 2008, through May 19, 2009, participation by the OMG dealers resulted in a reduction of over 235,000 trades and a reduction of \$15 trillion in trade notional.
  - By June 30, 2009: The OMG dealers commit to supply aggregate and participant level compression metrics to supervisors on a quarterly basis, including multilateral and bilateral compression runs and unwinds.
- **Cashflow Reconciliation, Automation and Central Netting and Settlement:** Industry metrics indicate settlement break rate performance improves when confirmations are matched via electronic platforms. Settlement breaks make up less than 1% of the total gross cash flows in the rates market, following a 66% year on year reduction<sup>17</sup>. Further, all cleared dealer settlements are centrally settled in the rates market today via the London Clearing House PPS infrastructure with near-zero break rates. Cashflow reconciliation automation and central netting and settlement remains the strategic plan for supporting the rates market but when reviewed in the context of the other deliverables, it is not considered a priority for 2009.
  - By September 30, 2009: The OMG commits to deliver a strategic roadmap that evaluates the cashflow reconciliation, automation, central netting and settlement processes aimed at improving the number and age profile of outstanding breaks.
- **Confirmation Backlog Reduction:** By September 30, 2009: The OMG commits that electronic and paper outstanding confirmations aged more than 30 calendar days are not to exceed 0.50 business day of trading volume based on the prior three months rolling volume and the OMG dealers commit to continue reporting these targets on a monthly basis. This reflects a significant improvement since October, 2008, when electronic and paper outstanding confirmations aged more than 30 calendar days were at 1.3 business days of trading volume. Further improvements in this target will be realized with the implementation of industry infrastructure outlined above. The OMG commits 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.

## Collateral Management

Consistent with recommendations made by the Counterparty Risk Management Policy Group III ("CRMPG III"),<sup>18</sup> the OMG commits to the following:

- **Collateralized Portfolio Reconciliations:**

<sup>15</sup> Members consist of Banca Intesa, Calyon, Commerzbank and Nomura as well as the undersigned dealers excepting Dresdner and Wachovia.

<sup>16</sup> Currently 22 cycles are scheduled between June and December, 2009.

<sup>17</sup> 2,100 in March, 2008 versus 700 in March, 2009.

<sup>18</sup> Recommendation V-10 regarding frequent portfolio reconciliations and mark-to-market comparisons;

Recommendation V-11 regarding resolution of disputed collateral calls;

Recommendation V-12 regarding the escalation of valuation difference to senior trading personnel to ensure rapid resolution.

- By June 2, 2009: Concurrent with this letter, implement revised regulatory reporting thresholds comprised of a fixed USD amount supplemented with risk-based deviation for collateralized portfolio reconciliations between OMG dealer firms, as detailed in the March 31, 2009 Collateral Update letter.<sup>19</sup>
- By June 30, 2009: Execute daily<sup>20</sup> collateralized portfolio reconciliations<sup>21</sup> for collateralized portfolios in excess of 500 trades between OMG dealers. This new commitment replaces the former, less stringent commitments made in the December 31, 2008 Collateral Update letter to reduce the threshold portfolio size for weekly collateralized portfolio reconciliations and execute daily uploads between OMG dealers. This new commitment will mean that by the end of June, an estimated 70%<sup>22</sup> of the collateralized OTC derivative market that is not centrally cleared will be subject to the discipline of frequent reconciliation between counterparties of (i) trade inventory and (ii) trade valuation. This represents a significant movement towards recommendation V-10 in the CRMPG3 report and, as set out below, we will continue to pursue the broader goal.
- By October 31, 2009: Publish a feasibility study on market-wide portfolio reconciliation that will set out how the discipline of regular portfolio reconciliations can be practically extended beyond the current OMG dealers to include smaller banks, buy-side participants and derivative end-users. The study will look to capture market requirements, challenges, potential solutions and dependencies. The study will be undertaken by representatives of dealer and buy-side firms under the auspices of the ISDA Collateral Committee.
- Dispute Resolution:
  - By June 2, 2009: Concurrent with this letter, publish for comment the first phase of a proposed mechanism for resolution of disputed margin calls (the “DR Protocol”). Phase 1 of the DR Protocol will deal with the market framework for identifying, investigating and resolving disputes in an orderly manner, and mutual methods of dispute resolution between the parties. After a three week comment period followed by revisions, the OMG will discuss a timetable for implementation with supervisors.
  - By June 30, 2009: Publish for comment the second phase of the DR Protocol. Phase 2 will deal with methods of dispute resolution and mitigation for complex, illiquid trades. This will be followed by another comment period and further discussion of the results with supervisors so that an agreed protocol can be finalized by September 30, 2009.
- Roadmap: By June 2, 2009: Concurrent with this letter, deliver the Roadmap for Collateral Management to supervisors, as detailed in the October letter.

<sup>19</sup>Update letter from the ISDA Collateral Committee to supervisors. There are two such letters dated December 31, 2008 and March 31, 2009.

<sup>20</sup>Daily is defined as at least 16 reconciliations per month to be consistent with existing portfolio reconciliation metrics provided to the supervisors.

<sup>21</sup> Collateralized Portfolio Reconciliation is defined as 1) Uploading the collateralized portfolio 2) Reconciling/Matching the collateralized portfolio 3) Releasing/publishing the results to both parties involved. Parties are expected to follow their own internal procedures for the investigation of portfolio reconciliation differences, consistent with their risk assessment of each counterparty situation and any investigation already on-going in respect of differences previously identified.

<sup>22</sup> Source: TriOptima estimates. The TriResolve portfolio matching service is used across 1750 legal entities to reconcile approximately 5 million trades regularly, of which 3 million are between the Major Dealers and subject to daily reconciliation. Of the remainder, which are mostly between dealers and other parties, roughly half are reconciled daily and the other half typically weekly. It is estimated that the OTC derivative market size is around 7 million trades in total, based on DTCC and BIS reported data. Thus, overall, 70% of the market is subject to weekly or better reconciliation; 60% of the market is subject to daily reconciliation.