

9 June 2008

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

Dear Mr. Geithner:

As provided in the industry letter to the Federal Reserve Bank of New York dated March 27, 2008 (the “March 27 Letter”), the International Swaps and Derivatives Association, Inc. (ISDA), Managed Funds Association (MFA), and Securities Industry and Financial Markets Association (SIFMA) are pleased to deliver the implementation plan we have jointly developed to help enable market participants we represent to operate consistently with the relevant goals outlined in the March 27 Letter for the credit derivatives markets. Specifically, this implementation plan is focused on the following classes of market participants: asset management firms, alternative investment managers and small to mid-sized banks and dealers that are regular participants in the credit derivatives markets (the “Broader Trading Community”).

ISDA, MFA and SIFMA have strongly endorsed the goals and objectives of the major derivatives dealers in enhancing the infrastructure of the OTC derivatives markets since their initial commitments were formally delivered to regulators over two years ago. In addition our organizations have advocated operational efficiency in trade processing more broadly as a matter of sound practice for many years.¹ Consequently, we view this implementation plan as a fundamental undertaking in our continuing mission to promote sound market practices and the integrity of the OTC derivatives markets that are so vital to our members’ businesses.

Our current implementation plan consists of three fundamental strategies: (i) communication and education, (ii) facilitation of use of electronic confirmation and novation platforms, and (iii) electronic confirmation matching improvement.

¹ For example, the original *Sound Practices for Hedge Fund Managers* published by MFA members in February 2000 stated that “Hedge Fund Managers should establish transaction execution and documentation management procedures that ensure timely execution of necessary transaction documents and enforceability of transactions.” (*Sound Practices for Hedge Fund Managers (2000)*, at page 25.)

ISDA has also produced documents with respect to operational efficiency, including: *Moving Forward: Implementation Paper* (March 31, 2004); and *Going Forward: A Strategic Plan* (December 10, 2003) together with many best practice statements.

SIFMA issued “Swaps Best Practices Initiative: Aid to Public Comment” on July 20, 2005, which was drafted by buy side firms comprising The Asset Managers Forum. The recommendations in this document promote the adoption of automated solutions concerning derivatives processing by asset managers and custodians.

Strategy #1: Communication & Educational Outreach

ISDA, MFA and SIFMA are working collaboratively to sponsor and organize a series of communications to further educate market participants on the industry's operational commitments and goals for the credit derivatives markets. These initiatives include the following:

- Periodic industry “radio calls”. The first of these calls was held on May 12, 2008 and was attended by nearly 900 participants from the Broader Trading Community.
 - To ensure broad outreach, invitations to the call were distributed not only to ISDA, MFA and SIFMA members, but also to all DTCC participants to ensure that firms that are not members of one of our organizations would be able to participate.
 - A concise, one-page summary of the goals and targets addressed during the call is attached as Attachment 1. This summary was distributed to all invitees in advance of the call.
 - The call consisted of presentations by buy and sell side representatives from the Operations Management Group (OMG), followed by a Q&A session during which we addressed frequently asked questions and allowed the listening audience to pose questions.
 - An audio recording of the full session is freely available for download from ISDA's website by all market participants worldwide. We anticipate organizing further radio calls to address industry progress, issues and questions as needed.
- In-person/live educational seminars in New York/London. These half-day events have and will continue to include presentations by buy and sell side members of the OMG as well as industry service providers.
 - Our first live educational event took place on June 5, 2008 in New York. The agenda for the New York session is attached as Attachment 2.
 - The next such event will take place in London on June 17, 2008.
 - We expect to schedule future live events in the U.S., Europe and Asia as needed.
- Centralized, online information centers. Each industry association will soon make a compendium of information regarding the industry's goals and targets available online, including relevant industry letters and press releases, regulatory and policy documents, recordings of radio calls and live sessions and a list of “Frequently Asked Questions” (FAQs) with detailed answers.²

In alignment with the above commitments, ISDA, MFA and SIFMA are using or plan to use their respective regular communication channels with their memberships via newsletters, emails, conferences, working group meetings and web-based sessions to further provide education to the Broader Trading Community. A few recent examples include:

² At present, ISDA's compendium is live. See: http://www.isda.org/c_and_a/oper_committee-index.html.

- At ISDA's Annual General Meeting in Vienna in April 2008, the program featured two separate panels during which buy and sell side members of the OMG addressed the commitments set forth in the March 27 Letter.
- MFA recently held a series of seminars on its seminal publication, *Sound Practices for Hedge Fund Managers*, during which the goals from the OMG letters with respect to trade processing for OTC derivatives were addressed and advocated. In addition, MFA held an educational session for its members with DTCC earlier this month regarding onboarding on to DerivServ's Central Settlement Service.
- SIFMA has established a buy side Derivatives Operations Committee, which recently surveyed 50 of the largest asset management firms on their ability to achieve the industry commitments described in the March 27 Letter. More than 30 firms have already responded that they are meeting the goals for the use of electronic confirmations, submission, matching and accuracy and sending allocations on trade date. Asset managers emphasized that they will need the continued support of their sell side trading partners and the vendor community to improve on the above goals and to meet targets concerning electronic novations. Managers and dealers, for example, rely on each other to confirm trades on DerivServ. Also, as described below, asset managers intend to work with counterparties to ensure that electronic novation platforms are interoperable.

Strategy #2: Facilitation of Enhanced Use of Electronic Platforms for Confirmation and Novation of Electronically Eligible Trades

The industry has made tremendous progress in onboarding the Broader Trading Community to electronic confirmation platforms for credit derivatives since 2005; however, we believe more can be done to promote onboarding to electronic platforms for confirmations and novations in order to facilitate the industry's ability to meet the goals and targets stated in the March 27 Letter.

Given the limited use of electronic novation platforms today, we believe that moving the Broader Trading Community to these platforms by year-end represents our greatest challenge.

Nonetheless, we recognize that the current use of email for the solicitation of novation consents is highly inefficient and leads to unnecessary processing delays and failed novations, particularly when volumes are high. Therefore we strongly advocate that our members adopt electronic novation solutions in an expeditious manner as a matter of sound practice and to promote market integrity. In this regard we plan to work within the OMG and with DTCC and other relevant organizations and vendors to achieve the following:

- Development of a fact sheet for the Broader Trading Community regarding electronic novation solutions and onboarding processes by July 31, 2008;
- Identification of measures that will promote the timely onboarding and backloading of firms within the Broader Trading Community onto electronic confirmation and novation platforms, as well as the adoption of automated trade data submission by parties engaging in a high volume of trades where appropriate, by September 1, 2008; and
- Promotion and encouragement of necessary investment by dealers, vendors and the Broader Trading Community in developing electronic novation workflow solutions that

will enable the Broader Trading Community to process the majority of novation consent requests electronically by December 31, 2008, recognizing that any solution must be fully interoperable with multiple vendors and supported by all of the dealer members of the OMG. More specifically:

- We are working with the OMG, DTCC and relevant industry vendors to ensure that the novation and allocation workflows reflected in the electronic novation workflow solutions being developed accommodate the needs and business models of the Broader Trading Community.
- We strongly recommend that any vendor intending to offer fully electronic novation workflow solutions to the Broader Trading Community make them available for adoption and use no later than September 1, 2008.
- We urge the OMG to promptly assess proposals designed to ensure the interoperability of the various novation solutions being developed by vendors with a view to selecting the proposal that will best meet the needs of both the major derivatives dealers and the Broader Trading Community in the timeframe required.

We recognize that certain novation solutions remain in development and have not yet been fully vetted by the Broader Trading Community. Consequently, we will solicit feedback from our respective members by September 1, 2008 regarding their readiness and ability to adopt electronic novation solutions and promptly identify challenges that may potentially interfere with meeting the relevant goals of the March 27 Letter. We also recommend that DTCC measure the industry's progress monthly by publishing a metric showing the percentage of novation volume for which consents were submitted on electronic platforms.

Strategy #3: Electronic Confirmation Matching Improvement

The objective of our electronic confirmation matching improvement strategy is to facilitate parties' abilities to submit and match as many trades as possible on trade date via electronic confirmation platforms by reducing trade processing challenges. While we expect this strategy to evolve over time with industry progress, our initial strategy for confirmation improvement is comprised of the following elements:

- First, we are working with DTCC to identify the sources of common trade breaks for the Broader Trading Community and possible means to reduce their frequency. DTCC will be hosting its first "buy-side forum" to discuss these issues this week. As part of this effort, we expect to leverage the undertakings of DTCC's Confirmation Improvement Working Group (CIWG) and the Credit Implementation Group of the OMG (which will direct the work of the CIWG going forward). We intend to issue specific confirmation improvement recommendations addressing the needs of the Broader Trading Community by July 31, 2008.
- We also are actively working with DTCC to make useful statistics available to individual firms that comprise the Broader Trading Community so that they can assess their progress and standing against the goals and targets set forth in the March 27 Letter. DTCC has announced that effective in June all clients that submit 150 or more trades in a single month will receive weekly and monthly reports addressing trade submission

timeliness, break resolution timeliness, matching performance and other key metrics. Over the next two months we will solicit feedback from our respective members regarding the utility and transparency of these reports and consider whether they should be provided to a broader client universe.

- In addition we continue to encourage the industry to make standard identifiers (such as RED codes) for reference entities and obligations freely available to the Broader Trading Community in order to advance their widespread use and facilitate automated trade matching.

Given the progress that the industry has made to date in improving credit derivative market infrastructure, we believe that our communication and endorsement of the goals of the March 27 Letter, combined with the other strategies detailed above, will produce the market response and discipline necessary to achieve these goals. We look forward to reporting on our progress toward these important goals as we continue to strengthen operational efficiency in the credit derivatives markets.

Yours Sincerely,

International Swaps and Derivatives Association, Inc. (ISDA)
Managed Funds Association (MFA)
Securities Industry and Financial Markets Association (SIFMA)