June 2, 2009
Summary of OTC Derivatives Commitments

This document summarizes the commitments to the broad strategic vision for further strengthening the resilience and robustness of the operational infrastructure for the global OTC Credit, Interest Rate and Equity derivatives markets (OTC Derivative Markets) that market participants are making to regulators as of June 2, 2009. This document has been prepared by the same dealer and buy-side signatories indicated on the June 2, 2009 letter to the Federal Reserve Bank of New York.

The ISDA Board Oversight Committee (IBOC) and its constituents and partners in conjunction with the Operations Management Group (OMG) recognizes the necessity to proactively address the continued expansion of operational performance targets and policy initiatives. The latest commitments continue to extend beyond our previous accomplishments in order to dynamically improve derivative processing, scalability, risk mitigation, regulatory transparency and market resiliency.

Recent changes to the Derivatives Industry Governance model has broadened the participation base in industry decision-making. Various partnerships with ISDA and the OMG have further enhanced the buy-side perspective on critical industry deliverables and contribute to the OTC derivative industry efforts across asset classes.

Derivative market participants have significantly reduced systemic risk and increased transparency by meeting a number of important milestones, including the following:

- Clearing: First CCP went live for US index CDS as of March, 2009. Central counterparties (CCPs) have additionally been launched in 2009 for Credit Derivative (CDS) markets. To date, $80 trillion in global rates and $600 billion in U.S. credit products have been cleared. CDS CCP clearing will expand to European products 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 $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.[1] 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[2] as the industry approaches it's steady state in these asset classes.

The IBOC and OMG continue to develop a strategic vision for the derivatives industry which focuses on several high level goals intended to make derivative processing more scalable, transparent and resilient in all asset classes.

IBOC and OMG reiterate the commitments to reducing systemic risk in the OTC markets through the following:

[1] Date range spans from October, 2008 through April, 2009.
[2] Date range spans from October, 2008 through April, 2009.

- 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.

Although the Credit, Equity, Interest Rate, Commodities and Foreign Exchange/ Currency derivative asset classes have appreciable differences, they share concerns and objectives. While Commodities and Foreign Exchange/Currency derivatives are not included in this version of the letter, their prior commitments are summarized as part of the attached tables. Strategic roadmaps which articulate approach, obstacles and milestones for each asset class, in addition to existing commitments from previous letters, are likewise summarized in the attached tables. As an integral part of the derivatives market, strategies for improving collateral and valuation process across asset classes are also highlighted.