

March 27, 2008

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

Dear Mr. Geithner:

We are pleased to update you on our continued improvement of the credit and equity derivatives markets. A senior industry leadership group, the Operations Management Group, has succeeded the previous work of the Senior Oversight Group, with the purpose of leading fundamental change in front-to-back processes across OTC derivative products. The Operations Management Group comprises both buy and sell-side representation including the signatories below (the “Major Dealers”), individual buy-side clients<sup>1</sup>, 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).

### **Credit Derivatives Market**

As outlined below, our major 2008 operational goals for the industry include:

- Consistent use of electronic confirmation platforms for electronically eligible trades;
- By May 2008: ISDA, MFA, SIFMA to deliver a market implementation plan on relevant goals in this letter and ISDA to review a Credit Event management timetable with Market Supervisors;
- By July 2008: Submission, matching and accuracy targets to be met by Major Dealers and buy-side institutions in the Operations Management Group;
- By September 2008: Most Major Dealers to be live with each other for Central Settlement;
- During 2008: Novation requests to be submitted via electronic platforms rather than via email.

ISDA, MFA and SIFMA will work with their members and other market participants to educate the marketplace on the goals in this letter and by May 2008 will deliver an implementation plan to help enable participants to operate consistently with such goals, specifically i) the submission, accuracy and matching expectations, ii) electronic novation consents, and iii) the industry’s commitment to a strategic novation and allocation workflow. This plan will also set the month in late 2008 when only electronic novation requests will be accepted for electronically eligible trades, with a 30 day onboarding window for new novation clients.

### *Expectations for all Credit Derivative Industry Participants*

To continue to advance operational scalability, the Operations Management Group endorses that the following be met by all credit derivative industry participants including service providers:

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<sup>1</sup> The Operations Management Group includes buy-side institutions and alternative investment firms such as AllianceBernstein, BlueMountain Capital Management LLC, and Citadel Investment Group, L.L.C.

- Participants will maintain a minimum standard of submitting electronically eligible trades or accepting alleged transactions within 60 calendar days of each new product or service launch on DTCC or another industry accepted electronic confirmation platform feeding to the DTCC Trade Information Warehouse following publication of industry agreed documentation;
  - Participants can use vendor solutions, direct FpML messaging, spreadsheet upload or Web allege affirmation. The Major Dealers and all service providers will continue working with ISDA to ensure adherence to the FpML open standard;
- By late 2008, novation requests for electronically eligible trades are to be submitted electronically via any vendor solution. Participants are expected to invest in a strategic, interoperable novation workflow leveraging Warehouse records, where possible, and including automated execution of remaining party assignments upon client request through 2008;
- In keeping with current practice, buy-side participants executing on behalf of multiple funds are expected to always provide correct trade allocations by close of local business on T+0 to enable accurate T+0 trade submission by dealers. Participants are expected to invest in allocation automation through vendor or direct solutions through 2008;
- To ensure the above, the Major Dealers in accordance with previous commitments, will continue to ensure that new active clients are quickly onboarded to electronic platforms such that virtually all electronically eligible trades are confirmed electronically

#### *Commitments from Major Dealers and Operations Management Group Buy-Side Institutions*

Our goal is a marketplace that matches its trades on trade date. As a major step toward this goal, the Major Dealers and the buy-side institutions in the Operations Management Group commit to meeting, by July 2008, the following operating expectations for electronically eligible confirmable trade events with all counterparties, excluding novations:

- 90% T+1 submission;
- 90% submitted accurately, matching without amendment;
- 92% matched by T+5;
- RED subscribers are to accurately submit 9-digit RED codes, standard identifiers that greatly improve matching, on 100% of index trades and 90% of single name trades;
- Exceptions to the above to be escalated internally and externally as appropriate

#### *Further Major Dealer Commitments*

The Major Dealers will also replace our current method for measuring aged outstanding confirmations. Electronic and paper unconfirmed confirmations more than 30 calendar days are not to exceed the lesser of i) 2 business days of trading volume based on average daily volume over the most recent three months, or ii) 2 business days of trading volume based on average daily volume in January, February and March 2008.

Metrics for the above submission, accuracy, matching, RED and 30 day targets will be produced for Major Dealers and will be forwarded to our Market Supervisors. The Major Dealers will review the metrics monthly to identify and discuss problems facing lowest performing firms.

Additionally, all Major Dealers agree to the following for Central Settlement-eligible trade events with fees:

- Submission by T+0 business days;

- Confirmed by 2pm EST on T+2 business days

In November 2007, groups of Major Dealers began calculating and settling fees and coupons centrally via DTCC rather than bilaterally, leading to far fewer fails. Most of the Major Dealers are committed to be live with each other for the September 2008 roll following the success of these initial groups.

### *Credit Event Management*

ISDA has organized nine protocols and auctions for the settlement of credit derivative contracts. The most recent auction, the results of which were used to settle single name, index and bespoke portfolio trades, ran smoothly and had the highest number of adherents of any auction to date. With each protocol, the market has addressed specific issues in implementing the auction. Incorporating the auction mechanics into industry standard documentation will require participants to agree in advance to a mechanism to address these and other issues that may arise.

ISDA and Market Supervisors have been discussing the incorporation of the auction mechanism into ISDA documentation and ISDA has commenced a process to achieve that incorporation where appropriate. In May 2008, ISDA will review with Market Supervisors the industry's current status including a list of issues for resolution and a timetable for next steps in the effort. The key issues have been identified and the process has started with the credit derivative dealer firms that have been most closely involved with the development of the auction mechanism. Participation will be broadened as soon as possible to include other interested market participants.

The signatories to this letter support ISDA's efforts to strengthen Credit Event management across the industry and will actively participate in the process above.

### **Equity Derivatives Market**

In addition to continuing to deliver on the equity derivatives targets set forth in our recent letters, the Major Dealers implemented a risk mitigation strategy to affirm trade details following execution, similar to what has been implemented in the credit derivatives market. While dealers may currently use different risk mitigation strategies, we will develop standards including a set of core fields by product that need to be risk mitigated.

Beginning March 31, 2008, we will report to our Market Supervisors the percentage of trades that were risk mitigated through affirmation of trade details within the below timeframes:

- Percentage of non-electronically eligible confirmations risk mitigated by T+5 business days;
- Percentage of electronically eligible confirmations risk mitigated by T+8 business days where a trade event has not been matched/accepted by T+5 business days.

Each bank will have individual risk mitigation techniques which may vary depending on product, region, client type and mode of execution. All banks are prepared to discuss their specific risk mitigation techniques with the appropriate Market Supervisor directly, which may include:

- Verbal trade check out with an appropriate affirmation contact at the counterparty;
- Spreadsheet / email exchange and affirmation between appropriate affirmation contacts including receipt and positive acknowledgement by the counterparty;

- Use of industry available affirmation platforms;
- Term sheet exchange / allocation exchange and email / electronic recaps between trading desks which would include positive acknowledgement by the counterparty;
- Third party broker confirmations

We look forward to reporting on our progress toward these important goals as we continue to strengthen operational efficiency across derivatives products.

Yours Sincerely from the Senior Managements of:

|                       |                                  |
|-----------------------|----------------------------------|
| Bank of America, N.A. | HSBC Group                       |
| Barclays Capital      | JPMorgan Chase                   |
| Bear, Stearns & Co.   | Lehman Brothers                  |
| BNP Paribas           | Merrill Lynch & Co.              |
| Citigroup             | Morgan Stanley                   |
| Credit Suisse         | The Royal Bank of Scotland Group |
| Deutsche Bank AG      | Société Générale                 |
| Dresdner Kleinwort    | UBS AG                           |
| Goldman, Sachs & Co.  | 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)