This document summarizes the commitments to improve management of OTC derivatives activities that market participants are making to regulators as of July 31, 2008.

Since their collective effort to address weaknesses in the OTC derivatives market began in 2005, major dealers have reduced OTC credit derivatives (CDS) confirmation backlogs by roughly 93% and increased the percentage of trades that are confirmed electronically from 53% to more than 90%. During this time period, CDS trade volumes have risen by more than 200%. On average, dealers have reduced their respective OTC equity derivatives backlogs by 70% from levels in mid-2006 and 95% of interdealer trades are now processed on electronic platforms.

The commitments below expand market efforts beyond OTC credit and equity derivatives to OTC interest rate, commodities and foreign exchange derivatives. They are centered on a near-term approach of escalating targets for reducing confirmation backlogs and greater use of electronic trade matching. In parallel, market participants are developing a longer-term strategy for moving OTC derivatives processing to automated matching on trade date (T+0), an environment that will mirror performance in mature markets and eliminate material confirmation backlogs.

In addition to these operational improvements, major dealers are undertaking other steps to improve how they manage risks associated with OTC derivatives activities. These steps include:

- The formation and use of a central counterparty for index CDS trades by December 31, 2008 that will comply with international regulatory standards for robust risk management,

- Significant reductions in the total value of outstanding CDS trades through more aggressive use of multilateral trade terminations which will reduce operational risks and counterparty credit exposures,

- “Hardwiring” an auction-based settlement mechanism into CDS documentation by December 31, 2008 in order to increase the certainty of a transparent and orderly settlement process following a credit event, and

- Improving collateral management practices by reconciling portfolios on a weekly basis, committing sufficient resources to address any portfolio differences on a timely basis and reporting performance metrics regularly to supervisors.

Market participants have also made a number of other commitments to improve the resiliency of OTC derivatives markets. The tables on the following pages summarize both new and continuing commitments.

OTC Credit Derivatives

Electronic Processing		
March 2008 Letter	**July 2008 Letter**	**Explanation**
Submit 90% of electronically eligible trades by T+1	92% T+1 by December 2008	The targets for timely and accurate trade matching have been increased to ensure continued operational improvement while a longer-term roadmap toward matching on T+0 is developed. Automating novations, as outlined below, is a necessary step to meeting these higher targets.
Match 90% of trades without amendment	92% by December 2008	
Match 92% of electronically eligible trades by T+5	95% T+5 by December 2008	These targets will move to submission and matching on T+0 as the roadmap is implemented.

Confirmation Backlog Reduction		
March 2008 Letter	**July 2008 Letter**	**Explanation**
Aged confirmations can not exceed 2 business days of trading volume	Aged confirmations can not exceed 1 business day of trading volume	The target for efficient processing of outstanding confirmations is now more stringent as market participants met and maintained the March commitment. For comparison, aged confirmations exceeded 17 business days of trading volume when this collective effort began in 2005.

Novations		
March 2008 Letter	**July 2008 Letter**	**Explanation**
Year end target for all novation requests to be submitted electronically	December 31, 2008 date set after which major dealers will not consent to electronically eligible novations sent via email	The novation process remains the largest deterrent to efficient CDS trade processing and requires significant investment and rapid implementation to resolve.

Additional New Commitments in July 31 Letter	
Commitment	**Explanation**
By October 31, 2008, market participants will outline the industry strategy to implement its long-run objective of matching on trade date.	An industry-wide strategy and implementation plan is essential for making the fundamental design changes to derivatives processing required to match on trade date.

Additional New Commitments in July 31 Letter	
Commitment	**Explanation**
Starting in August 2008, major dealers will begin an effort to reduce the number of outstanding single-name CDS trades. Dealers will also continue to reduce the number of outstanding index CDS trades through coordinated multilateral terminations.	Reducing the number of outstanding CDS trades will reduce aggregate notional amounts outstanding, reducing counterparty credit exposures and making a dealer's "book" of trades easier to manage.
Major dealers will launch a central counterparty (CCP) clearing facility for credit derivatives index products by December 2008. They also commit that any CCP in which they participate will comply with international regulatory standards for central counterparties.[1]	Central clearing arrangements with robust risk management regimes help reduce systemic risk associated with counterparty credit exposures and improve the ability of market participants to address the failure of a major participant.
An auction-based settlement mechanism will be incorporated into standard credit derivatives trade documentation by December 2008.	Incorporating the mechanism into standard documentation will increase certainty following credit events by ensuring full participation and a transparent and orderly settlement process.

Commitments Continuing from Previous Letters	
Commitment	**Explanation**
Market participants to be capable of submitting and accepting electronically eligible trades within 60 days of availability on an electronic confirmation platform.	This requirement expedites participants' support for new products shortly after they are added on electronic processing platforms.
Market participants to send correct trade allocations on T+0.	This practice assures that both dealers and buy-side firms credit trades to the appropriate legal entities in a timely manner.
Major dealers to continue to quickly onboard new clients to electronic platforms.	This effort will ensure that automation will apply to all client trades.
Central Settlement submission and confirmation timelines in place, and most dealers to be live with each other by September.	Centralized settlement of quarterly CDS payments reduces settlement "breaks" where payments are not made to the right party on the due date and must be manually resolved by counterparties.
RED code usage continues, with the standard identifiers required for 100% of Major Dealer index trades and 90% of single names.	Universal use of standardized reference data improves the ability of counterparties to match trade details in an automated manner and is an important component to meeting their submission accuracy and matching commitments.

[1] These standards, entitled "Recommendations for Central Counterparties", were jointly issued by the Committee on Payment and Settlement Systems of the G-10 central banks and the Technical Committee of the International Organization of Securities Commissions and can be found here: http://www.bis.org/publ/cpss64.htm

Commitments Continuing from Previous Letters	
Commitment	**Explanation**
From March 2006 letter, the credit derivatives industry continues its goal to affirm the economic details of trades by T+3 for paper trades and T+5 for electronic trades that have not yet been matched.	Positive affirmation of trade economics is a key risk mitigation technique for OTC derivatives because it assures that each counterparty's risk management systems accurately reflect the economic details of trades that have not yet been matched.
From March 2006 letter, dealers need to continue to apply sufficient operational and legal resources to achieve outlined targets.	Resource bottlenecks are not acceptable reasons for outstanding confirmation growth.
Lock-ins to review outstanding interdealer trades continue as committed in 2005.	Lock-ins are now part of the regular course of business.

OTC Equity Derivatives

Electronic Processing		
May 2007 Letter	**July 2008 Letter**	**Explanation**
By November 2007, 80% of eligible trades ***among dealers*** to be processed on an electronic platform.	By January 31, 2009, 75% of ***all*** eligible trades to be processed on an electronic platform.	Major dealers are now widening the scope of this commitment to automate trades among all counterparties. This significantly expands coverage of this commitment as approximately three-quarters of major dealer trades are with clients.

Confirmation Backlog Reduction		
May 2007 Letter	**July 2008 Letter**	**Explanation**
By September 2007, reduce the backlog of aged outstanding confirmations to a level 55% below the benchmark level set in mid-2006.	By January 31, 2009, aged confirmations cannot exceed 3 business days of trading volume.	The major dealers have replaced a historically-based measure for backlog reduction with one based on the level of market activity. The new measure is more useful for cross-firm and cross-asset-class comparisons. For comparison, the September 2007 target was the equivalent of 4.5 business days of trading volume and aged confirmations made up nearly 10 business days of trading volume at the start of 2007.

Additional New Commitments in July 31 Letter	
Commitment	**Explanation**
Market participants who trade ten or more electronically eligible transactions in a month will be encouraged to onboard to an electronic platform within 90 days.	This requirement expedites participants' implementation of electronic trading for new products supported on electronic platforms.
By November 30, 2008, confirmation strategy for financing and swap business to be agreed.	Financing and swap equity products present a greater challenge for standardization and automation and require a separate strategy.

Commitments Continuing from Previous Letters	
Commitment	**Explanation**
Positive affirmation of economic trade details (i.e. risk mitigation) to occur by T+5 business days for non-electronically eligible confirmations and by T+8 business days for electronically eligible confirmations that have not been completed by T+5 business days.	Positive affirmation of trade economics is a key risk mitigation technique for OTC derivatives because it assures that each counterparty's risk management system accurately reflects the economic details of trades that have not yet been matched.

Commitments Continuing from Previous Letters	
Commitment	**Explanation**
From November 2006 letter, dealers need to continue to be live with new products within 60 days of electronic platform launch.	This is a continued critical element to driving automation and ultimately trade date confirmation.
Six new buy-side Master Confirmation Agreements to be published by August 31, 2008.	Market participants are on target to meet this commitment toward essential standard documentation.

OTC Interest Rate Derivatives

Electronic Processing		
Past Letters	**July 2008 Letter**	**Explanation**
No previous commitments.	By October 31, 2008, 65% of eligible trades to be processed on an electronic platform. The target will be increased to 75% as of January 31, 2008.	This is the first set of electronic matching targets established for OTC interest rate derivatives and makes up part of the efforts to expand infrastructure improvements to all major OTC derivatives asset classes.

Confirmation Backlog Reduction		
Past Letters	**July 2008 Letter**	**Explanation**
No previous commitments.	By September 30, 2008, aged confirmations cannot exceed 2 business days of trading volume.	This is the first backlog reduction target established for OTC interest rate derivatives and makes up part of the efforts to expand infrastructure improvements to all major OTC derivatives asset classes.

Additional New Commitment in July 31 Letter	
Commitment	**Explanation**
Positive affirmation of economic trade details to occur by T+5 business days.	Positive affirmation of trade economics is a key risk mitigation technique for OTC derivatives because it assures that each counterparty's risk management systems accurately reflect the economic details of trades that have not yet been matched. This parallels previous commitments for credit and equity derivatives.

OTC Commodities Derivatives

Electronic Processing		
Past Letters	**July 2008 Letter**	**Explanation**
No previous commitments.	By July 31, 2008, performance metrics to be reported to supervisors on a monthly basis.	Dealers will begin to submit regular reporting of commodity derivatives performance metrics to provide a basis for supervisory monitoring and future industry performance targets. These efforts also make up part of new industry and supervisory efforts to expand infrastructure improvements to all major asset classes.
No previous commitments.	By October 31, 2008, dealers to provide supervisors with an electronic matching target.	Setting a target for electronic matching will parallel the approach for other derivatives asset classes. The submission of monthly data is necessary to inform the analysis of the appropriate target level.

Additional New Commitment in July 31 Letter	
Commitment	**Explanation**
Documentation standardization to be promoted through ISDA and LEAP projects.	Standardization of documentation is a prerequisite for electronic processing.

OTC Foreign Exchange Derivatives

Electronic Processing		
Past Letters	**July 2008 Letter**	**Explanation**
No previous commitments.	By December 31, 2008, performance metrics to be reported to supervisors on a quarterly basis.	FX derivatives processing is at a more mature stage than that of other derivatives asset classes. Dealers will begin to submit regular reporting of performance metrics to provide a basis for supervisory monitoring and possible future industry performance targets.

Collateral Management Practices

New Commitment in July 31 Letter	
Commitment	**Explanation**
ISDA best practices for portfolio reconciliation to be implemented between major dealers by December 31 2008, including weekly portfolio reconciliation of OTC derivatives.	Collecting collateral against bilateral credit exposures is an essential component of counterparty credit risk management. However, disagreements about how much collateral is owed can reduce the benefits of the collateralization process. Frequent portfolio reconciliation ensures that market participants have accurate and up-to-date trade information vis-à-vis their counterparties.
Develop an improved approach to managing disagreements over the valuation of trades by April 30, 2009 in order to reduce the severity of margin disputes.	Market participants may still disagree about the value of reconciled portfolios, particularly those containing complex OTC derivatives. Improving how valuation differences are addressed will help assure that the appropriate collateral amounts can be delivered in a timely manner.

Buy-Side Implementation Plan

Commitment Continuing from Previous Letters	
Commitment	**Explanation**
Buy-side implementation plan delivered to supervisors in May.	The plan represents a significant effort to educate the extensive buy-side community about efforts to improve the OTC derivatives infrastructure. The effort supports the President's Working Group on Financial Markets' recommendations to involve all market participants in these efforts.