

December 10, 2008

The October 31, 2008 'Summary of Commitments' included the following:

It is estimated that Equity Swaps make up the highest proportion of the market's non-electronically eligible volume and the OMG therefore remains committed to the publication of a strategy regarding the processing of this product by Nov 30, 2008

We are pleased to report this strategy has been developed and approved. Please find attached a roadmap which sets the goals and milestones the OMG have defined to improve the processing of Equity Swaps.

Equity Derivatives Market, Equity Financing Swap Roadmap

Executive Summary

This roadmap defines the commitments of OMG participants in working towards electronic confirmation and risk mitigation for Equity Swaps events. The main focus on this roadmap is to define an electronic confirmation roadmap for the Discrete Total Return Swap product and a trade affirmation roadmap for all equity financing products. Equity financing products (collectively, "Equity Swaps") for the purposes of this Roadmap are categorized as Discrete Total Return Swaps ('Discrete TRS'), Portfolio Swaps and Contracts For Difference ('CFD.')

The Operations Management Group ("OMG") is committed to working toward a longer term goal of T+0 matching for electronically eligible Equity Swaps confirmable events. To achieve this, we have set interim goals around the standardization and improvement of the current industry legal framework between dealers, the electronic eligibility and matching of certain equity swaps events between OMG participants and at the same time with clients.

As stated in the OMG letter dated October 31, 2008 the major focus for Equity Derivatives remains the electronic processing of confirmations. Currently, only 40% of Equity Derivative transactions are eligible for electronic matching. The OMG is aiming at materially increasing this percentage over time, with an initial target of 60% of total volume being electronically eligible by the end of 2009. The highest priority for the OMG in 2009 is to extend this capability to Equity Swaps as they represent the highest volume with respect to initial transactions and frequency of post-trade events.

The roadmap does not address functional areas that are common across the Equity Derivative product range, such as life cycle event processing and central clearing and settlement. These functional areas will be further documented in a roadmap as committed to in the October 31, 2008 letter.

Longer term goals extending into 2010 will be considered for the types of Equity Swaps discussed below: Discrete TRS, portfolio swaps, and CFDs. These longer term goals could include increasing our electronic matching targets and expanding the products that are eligible for electronic matching through further standardization of master confirmation agreements ("MCAs").

Metrics Reporting

Metrics to be reported will be defined as covering all transactions where a legal confirmation is generated and positively confirmed. Negatively affirmed transactions will not be included as reportable volume from January 31, 2009. This will address the current inconsistency in reporting for both the Portfolio Swap and Discrete TRS transactions

Deemed consent

Negative affirmation is the term used by the industry for confirming Equity Swaps through a unilateral communication from the dealer to the client that is not countersigned by the client. The parties first enter into a written agreement which specifies that they are deemed to agree the terms of each transaction as evidenced in a one-way communication from the dealer to the client, subject to a review and dispute mechanism during a short timeframe following issuance of the communication, very much like customer brokerage agreements and confirmations for stock trades. Where this agreement exists, the practice is to treat the related transactions as ineligible for positive confirmation on an electronic matching platform.

The primary risk raised by negative affirmation is client repudiation of the trade terms where the dealer does not have a countersigned written agreement evidencing the trade terms. Major Dealers are comfortable with negative affirmation as robust risk mitigants are in place to ensure this risk is minimized. Risk mitigants in place include:

- Margining: client accounts are margined on a frequent basis, which requires clients to reconcile trade terms with the dealers.
- Confirmations are typically brief statements of the remaining trade variables: e.g. ticker, price, quantity and currency.
- Trade execution is electronic and trade terms are communicated at point of trade. Orders are sent in and fills sent back via in house affirmation tools on trade date.
- Daily Reporting: A daily report is sent to clients detailing any activity in relation to existing transactions and new transactions.
- Trade assignments are not frequent and all assignments are made with the written consent of the other party.
- A large portion of the trading volume is executed with a stable client base with which the dealer has a close relationship.

Electronically Eligible

Definition of electronically eligible for the Equity Swaps product has been defined as follows:

- The product can be electronically matched on a standard industry accepted electronic platform.
- Either bespoke or ISDA published MCA's have been executed.
- The Equity Implementation Working Group ("EIG") has deemed this product electronically eligible

EFS Products

To ensure a full understanding of both the products included in this roadmap and the commitments made we have included a section on product description and the operational processes involved in each. Due to the differences in product documentation and the differences in operational risk, it was deemed appropriate to set our commitments on a product by product basis.

The Major Dealers have defined the Equity Swap product categories as follows:

Discrete TRS - Single asset or basket of single asset underliers. Confirmed by long form confirmations (without an MCA), bespoke/in house MCAs or under the ISDA Equity Finance Swap Annexes.

Key Features of a Discrete TRS

- Underlying assets can include shares, indices, sector, custom baskets and convertible bonds.
- One single swap per transaction (includes single underlying asset or basket of a single asset type).
- Confirmations are positively confirmed for each new trade via signature or electronic platform

Portfolio Swaps –Portfolio swaps involve a total return swap wrapper with a dynamic portfolio under which multiple swaps and multiple assets types can be traded. Portfolio swaps are typically confirmed under a Portfolio Swap MCA ("PSA").

Key Features of a PSA:

- A bespoke MCA, agreed in writing on a bilateral basis, in advance of trading.
- The majority of the dealers require the initial transaction/transaction supplement to be signed by the counterparty and then negatively affirm any subsequent trading activity.
- Confirmations of subsequent trades are typically brief statements of the remaining trade variables: e.g. ticker, price, quantity, and currency.
- Trading activity can be presented as a series of field entries taking up no more than a line or two in a transaction report.
- This combination of standardization and simple reporting lowers the cost of trading compared to Discrete TRS.

- Underlying assets can include shares, indices, sector, custom baskets and convertible bonds. Tailored features include terms of reset and cashflow frequency and in some instances margining.

Contracts for Differences (“CFDs”). Similar to the Portfolio Swaps, CFDs are a form of total return swap, but usually restricted to a more narrow range of trading parameters. They are typically traded on single share underliers. CFDs generally have less operational risk and operational support for this product is often performed by prime brokerage operations and not derivatives operations teams. As a result, CFD volume has not been included in the reported ineligible population to date and going forward, this will remain the case. No further proposals will be made to further automate this product

Key Features of a CFD:

- Many of the key features of Portfolio Swaps are equally applicable to CFDs.
- Each client negotiates and signs an MCA or Annex to the ISDA Master Agreement that contains uniform terms for all CFDs.
- Confirmations are typically brief statements of the remaining trade variables: e.g. ticker, price, quantity, and currency.
- Trading activity can be presented as a series of field entries taking up no more than a line or two in a transaction report.
- CFDs are negatively affirmed

Interdealer Roadmap for legal confirmation on an electronic platform

Product coverage: Discrete Total Return Swap

Rationale for prioritization: Interdealer trading lends itself to MCA standardization and is also an area prone to unsigned confirmations, due to the length of time that confirmations remain unexecuted, the lack of industry standards, and a lack of routinely used MCAs for each region. Interdealer trading accounts for approximately 7% of the current ineligible Equity Derivatives population, although in some dealers it is as high as 15-20%. Given this background, the industry commits to the following:

- By March 31, 2009, to publish an agreed timeline for the matching of eligible transactions on an electronic platform Major Dealers commit to continue working with the vendor platforms to increase uptake and further provide for electronic confirmation of these transactions.
- By March 31, 2009, to publish a monthly eligibility matrix as part of the monthly reporting to the regulators
- By June 30, 2009, the Major Dealers in the OMG and ISDA commit to publish multi region ISDA MCA’s for **Discrete Total Return Swap** Share and Index products. This will include the EMEA, US, AEJ (AEJ Open and Closed markets) and Japan, but will specifically exclude Latam. Emerging EMEA will be added after the European Options Emerging Market MCA annex is published.
 - These templates will accommodate both Interdealer and Dealer to Dealer Proprietary desk business
- Starting on October 31, 2009, the OMG will provide a list of Major Dealers who have not begun to electronically confirm new or existing products on electronic platforms that meet criteria outlined in this section to supervisors and will provide regular updates.
- By December 31, 2009, the Major Dealers in the OMG commit to electronically matching 80% of electronically eligible events of the interdealer Discrete TRS product. An interim target is set at 65% by October 31, 2009.

Major Dealer to Client Roadmap for legal confirmation on an electronic platform

Product coverage: Discrete Total Return Swap

The industry notes that the recently published ISDA Equity Finance Swap Annexes (“EFS annexes”) are not routinely used **by all dealers** for a number of reasons:

- In house /bespoke MCA's are often used for the Equity Swap business as they include operational features such as tailored cash flows, resets and margining, the EFS annex does not include these features. However, the EFS annexes could be amended by bilateral agreement of the parties to include special margining provisions
- The scope of the in house MCA are sometimes global and multi asset, while the EFS annexes are regional and currently covers only share swaps, depending on the dealer in question. Not all in house MCAs are global or multi asset - some dealers use a regional MCA approach.
- Some dealers are of the view that based on their own internal risk assessment; the EFS annex does not offer sufficient protection for them in relation to Additional Disruption Events ('ADEs').

Rationale for prioritization: This business is approximately 24% of the current ineligible Equity Derivatives population. Approximately 45% of new deals are executed under long form confirmations, and 55% on a bespoke/ISDA standard MCA, but only limited electronic matching exists on an electronic platform. The OMG is committed to working toward a longer term goal of T+0 matching for electronically eligible Discrete TRS confirmable events.

The OMG commits to the following:

- By March 31, 2009 to publish an agreed timeline for the matching of dealer to client Discrete TRS on a standard industry accepted electronic platform. Major Dealers commit to continue working with the vendor platforms to increase uptake and further provide for electronic confirmation of these transactions.
- By December 31, 2009, the OMG commits to electronically matching 50% of electronically eligible events of the dealer to client Discrete TRS product. An interim target set at 25% by October 31, 2009.
- Starting on October 31, 2009, the Major Dealers will provide a list of dealers and buy side firms who are trading more than 20 eligible trades per month, but have not onboarded to an electronic platform, to supervisors and will provide regular updates.

Major Dealer to Client Roadmap: trade affirmation on an electronic platform

Product coverage: All

Rationale for approach. There are a number of different ways that have been adopted in the market for legal confirmation, trade execution and communication of trading activity for the portfolio swap product. Due to these differences, in particular with the wide use of negative affirmation for both the initial creation and the subsequent trade activity, the Major Dealers are committed to continue enhancing in house solutions and investigating electronic solutions for risk mitigation of this product, as opposed to matching on an electronic platform. As there are currently no vendors offering a solution for this product, we cannot commit to a timeframe, but will commit to provide updates on the progress of this part of the roadmap as required.

- The Major Dealers in the OMG further commit to continue investigating electronic solutions to optimize the use of electronic risk mitigation for the Equity Swaps and lifecycle events where negative affirmation applies. Both in-house and vendor platforms will be considered. These solutions will offer scalable and robust risk mitigation for the volume of activity processed.
- Life-cycle events, including risk mitigation for Equity Swaps, will be considered further as the OMG discuss the target architecture for the equity derivative industry. This will be further documented in a roadmap as committed to in the October 31, 2008 letter.

Yours Sincerely from the Senior Managements of:

Bank of America, N.A.

Barclays Capital

BNP Paribas

Citigroup

Credit Suisse

Deutsche Bank AG

Dresdner Kleinwort

Goldman, Sachs & Co.

International Swaps and Derivatives Association, Inc. (ISDA)

Managed Funds Association (MFA)

Asset Management Group of the Securities Industry and Financial Markets

Association (SIFMA)

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