December 7, 2009

OTC Derivatives Supervisors Group
Attention: Mr. Theodore Lubke
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Dear Mr. Lubke:

The undersigned Commodities Major Dealers[1] (CMD) have previously set out a comprehensive set of commitments aimed at improving and enhancing the infrastructure in the global OTC Commodity Derivatives markets. We are writing to update you on these collaborative initiatives, which reflect the extensive dialogue with Supervisors[2] globally in recent months. We have worked expeditiously to successfully deliver on all of our commitments, as originally set out in the July and October 2008 Supervisory Commitment letters.

This letter outlines our continued commitment towards further strengthening the resilience and robustness of the OTC Commodity Derivatives infrastructure under the auspices of the ISDA Industry Governance Committee (IIGC) in conjunction with the ISDA Commodities Steering Committee (COSC) and the Commodities Implementation Group (COIG). We remain focused on five key operational areas for market-wide improvement: (i) increased transparency through enhanced metrics and reporting for Supervisors, (ii) increased electronic processing including formal targets for electronic matching of eligible OTC energy and metals transactions, (iii) increased standardization of documentation and "take-up" of standardized documentation, (iv) continued support for cross-asset class collateral practices and related commitments, and (v) continued focus on operational improvements through Best Practice recommendations[3] for the wider marketplace. While each of these key areas merit continued attention, the CMD have dedicated significant resources to (i), (ii) and (iii) resulting in a significantly reduced operational risk in the market in the course of 2009 (please refer to the Appendix for data on achievements to date). In tandem with our continued improvement in these three areas, we are dedicating resources to cross-asset risk mitigation, such as best practices for frequent portfolio reconciliation and upgraded dispute resolution practices.

As outlined in the October 2008 commitment letter, the OTC Commodity Derivatives market involves a diverse client/counterparty base, including dealers, hedge funds, institutional investors, sovereign entities, industrial consumers and producers and other segments of the market. While the commitments in this letter focus on inter-CMD transactions, CMD to non-dealer trade activity constitutes approximately 80% of total deal volume and therefore, the CMD will vigorously engage buy-side and non-financial market participants to progress actions on the five key operational areas for market-wide improvement.

We are pleased to inform you of the following achievements over the past year, our strategic view on further operational improvements and our commitment to meeting new operational performance levels, which are detailed in the Appendix to this letter. Ongoing commitments set forth in the October 2008 Supervisory Commitment letter that are not explicitly referenced in the Appendix remain in full effect.

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[1] The Commodities Major Dealers (CMD) includes Bank of America-Merrill Lynch, Barclays Capital, BNP Paribas, Citigroup, Credit Suisse AG, Deutsche Bank AG, Dresdner Kleinwort, Goldman Sachs & Co, HSBC Bank USA N.A., JP Morgan Chase, Morgan Stanley, RBS Sempra, Société Générale, UBS AG and Wachovia Bank, N.A.

[2] Supervisors include the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System, Connecticut State Banking Department, Federal Deposit Insurance Corporation, Federal Reserve Bank of Richmond, French Secretariat General de la Commission Bancaire, German Federal Financial Supervisory Authority , New York State Banking Department, Office of the Comptroller of the Currency, Securities and Exchange Commission, Swiss Financial Market Supervisory Authority , and the United Kingdom Financial Services Authority.

[3] Best Practice recommendations include the Whitepapers on Electronic Confirmation Matching, Settlements and Lifecycle Events.

Documentation

To further increase market transparency in regard to OTC Commodity Derivatives documentation, ISDA, in partnership with the CMD team, published a Commodities Documentation Matrix, which summarizes the various types of published documentation (ISDA and non-ISDA) that are utilized for Commodity Derivative and Physical transactions within the industry. Additionally, the CMD partnered with ISDA to summarize inter-CMD documentation baseline metrics to track documentation take-up rates. The Matrix and the documentation take-up rates will be updated quarterly. We have worked to align priorities on documentation standardization with related electronic confirm matching. The CMD have made significant progress in executing master agreements with each other, thus accelerating their efforts to expand electronic confirm matching. (Please refer to the Appendix for supporting data.)

Metrics and Reporting

We continue to focus on increasing transparency within the OTC Commodity Derivatives market through the maintenance and refinement of a set of core metrics, which are delivered to the Supervisors on an on-going basis. We continue to provide monthly data on energy, metals and "other" [4]commodities as previously committed. In addition, the CMD partnered with the other asset classes to ensure consistency in the type of reporting that has been developed and submitted to the Supervisors. We are committed to enriching the data reported to Supervisors, as needed, to make the metrics more meaningful as a risk and performance management tool. Due to the more mature nature of certain commodities markets, the CMD were also the first group of major dealers to provide cleared OTC volume data as part of its core metrics and reporting to Supervisors. This extension of the baseline bi-lateral OTC reporting will continue to be featured as part of our monthly metrics and quarterly trend reporting.

Electronic Confirmations Matching

The CMD remain committed to the principle that electronically eligible confirmable events should be confirmed on an electronic platform on trade date, as close as possible to the point of execution in order to minimize operational risk. Following significant achievements in increased dealer adoption of standardized documentation and on boarding onto electronic platforms, the CMD commit to formal monthly performance targets for inter-CMD electronic confirm matching for eligible energy and metals transactions. Performance versus targets will be tracked as part of our monthly metrics submissions and covered as part of our regular status review meetings with the Supervisors. In addition, the CMD commit to regularly update supervisors on each firm's usage of electronic platforms (please refer to the Appendix for details).

In the second quarter of 2009, the CMD published a best practice white paper on "Electronic Confirmation Matching for Commodities Products". Following the publication of this paper, in the third quarter of 2009, the CMD performed a survey to establish the degree to which these best practices had been adopted amongst the inter-CMD community. The results from this survey were shared with the Supervisors in September 2009. The CMD commit to providing the Supervisors with quarterly updates on incremental progress towards full adoption of the electronic matching best practices covered in the survey.

Commodities Operations White Papers

In an effort to further standardize OTC Commodity Derivatives processing and reduce operational risk, three commodities operations white papers were developed and published via ISDA. The papers detail the importance of and set forth key operational elements in regard to electronic confirmation matching, settlements and lifecycle events. In response to feedback from Supervisors, the CMD commit to consolidating the three documents into a single best practices paper and publishing the updated document to the Supervisors and the broader ISDA community by December 30, 2009. By March 31, 2010, the CMD will review the findings and recommendations of the paper with Supervisors to identify priorities and next steps to further improve the post-trade processing infrastructure.

[4] "Other" commodities include agricultural, softs, weather, emissions, freight, coal and derivatives based on commodity indices.

ISDA Industry Governance

As part of the broader ISDA Industry Governance model published on December 1, 2009, a Commodities Steering Committee (COSC) was established. This Committee forms part of the new governance structure and will improve transparency, coordination and create a more formalized decision making process that incorporates the views of the broad OTC Commodity Derivatives market base. The COSC is comprised of members from the business, operations and legal areas from the buy- and sell-side community, as well as non-financial market participants, and represents a range of geographical perspectives including North America and Europe. The COSC serves as a forum representative of the OTC Commodity Derivatives market to address and implement the market practice and post-trade agenda, including operational infrastructure issues beyond inter-CMD trade activity.

Collateral Management

The CMD continue to support the cross asset class commitments outlined by the ISDA Collateral Committee. In particular, as committed to in the Collateral Roadmap, the CMD signatories to this letter perform daily electronic portfolio reconciliation of all collateralized OTC inter-CMD derivative transactions, including OTC Commodity Derivative transactions. In addition to the daily inter-CMD reconciliations, we commit to utilize the ISDA 2009 Dispute Resolution Procedure as it applies to OTC Commodity Derivatives transactions.

Other Areas of Focus

The CMD commit to evaluating the potential benefits, and costs of other risk management tools such as portfolio compression and trade repositories. As detailed in the October 2008 letter, the CMD continue to execute bi-lateral tear-ups and novations of OTC financial to OTC cleared trades as appropriate. In October 2009, a pilot Portfolio Compression for U.S. Natural Gas Henry Hub was initialized which resulted in approximately $3.0 billion (MTM) being terminated. Results were shared with the Supervisors and the CMD are analyzing trade compression benefits for other transaction types.

We look forward to reporting on our continued progress toward further improving the OTC Commodity Derivatives infrastructure. We believe that the commitments set forth above and in the Appendix will continue these major advances and we look forward to continued dialogue with you.

Yours sincerely from the Senior Managements of:

Bank of America-Merrill Lynch
Barclays Capital
BNP Paribas
Citigroup
Credit Suisse AG
Deutsche Bank AG
Goldman, Sachs & Co.
HSBC Bank USA N.A.
International Swaps and Derivatives Association, Inc.
JP Morgan Chase
Morgan Stanley
RBS Sempra Commodities, LLP
Société Générale
UBS AG
Wachovia Bank, N.A.

Identical letters sent to:
Board of Governors of the Federal Reserve System
Connecticut State Banking Department
Federal Deposit Insurance Corporation
Federal Reserve Bank of Richmond
French Secretariat General de la Commission Bancaire
German Federal Financial Supervisory Authority
New York State Banking Department
Office of the Comptroller of the Currency
Securities and Exchange Commission
Swiss Financial Market Supervisory Authority
United Kingdom Financial Services Authority

APPENDIX

Over the past several years, the CMD have taken significant steps to improve the OTC Commodities processing environment, contributing to reduced systemic risk and increasing transparency. Following is a snapshot of the developments in the OTC Commodity Derivatives market and our achievements since we last reported:

- Since March 2009, the CMD have decreased the percentage of unexecuted documentation by a market average of 3% across the various commodity derivative product types. Documentation take-up levels prior to March 2009 were already very high for inter- CMD and many CMD to non-CMD relationships[5]
- The CMD delivered quarterly reporting metrics[6] from December 2007 through June 2008, and monthly since July 2008 on a number of key performance indicators for OTC Commodity Derivatives.
- Since December 2007, the total trade event volume[7] has increased by close to 100%.
- OTC cleared volume now accounts for (on average) approximately 35% of total reported volume[8].
- Since September 2008, the gross number of outstanding confirmations has fallen by 61%.
- Since September 2008 business days volume worth of outstanding confirmations[9] aged over 30 days has fallen from 1.3 to 0.2 days.
- The average % of total volume that is electronically eligible has increased from 52% (December 2007) to a high of 92% in October 2009.
- Electronic volume as a % of total volume has also increased, from 38% in December 2007, reaching a high of 74% in October 2009.
- The share of electronically eligible energy trades confirmed electronically has increased on average from 67% in September 2008 to 83% in October 2009.
- The share of electronically eligible metals trades confirmed electronically has increased on average from 43% in September 2008 to 74% in October 2009.
- Collateralized Portfolio Reconciliation: Weekly (and in many cases, daily) reconciliation between the undersigned dealers of collateralized portfolios since December 2008.

December CMD - Commodity Derivatives Market Supervisory Commitments:

- Documentation
    - In conjunction with the IIGC and the COSC, the CMD will continue to maintain the quarterly refresh process to update the inter-CMD baseline set in January 2009.
    - As part of this commitment, we will continue to publish the Commodities Documentation Matrix[10] via ISDA and work with the COSC and LEAP to promote incremental documentation standardization projects.
- Electronic Processing
    - In conjunction with the IIGC and COSC, the CMD will continue to develop updated electronic processing models for all trade types, in support of the Matching performance targets[11] below.
- Matching[12]:
    - The CMD commit to the two key electronic matching targets[13] as set-forth below:
    - Target 1: Beginning with January 2010 month-end data for energy trades between the CMD and for each subsequent month's data, on a volume weighted average basis, no less than 90% of the electronically eligible population will be confirmed electronically.

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[5] The CMD estimates that approximately 90% of relevant documentation was executed prior to March 2009

[6] Source – Markit Monthly Metrics – Trend Report September 2009 – note none of the statistics include "listed" volumes as these are reported separately through a range of formal processes

[7] OTC cleared volume was added to the metrics in December 2008 and accounts for some but not all of the volume increase

[8] Average as reported in October 2009. Volume reported to the Federal Reserve Bank of New York includes OTC financial, physical and cleared OTC products. Listed derivatives volume is reported separately (at present) to the CFTC and other Supervisors

[9] Business days outstanding is a volume neutral measure of outstanding confirmation ratios. It is derived by dividing the number of outstanding confirmations aged over 30 days by the average monthly deal volume, multiplied by a 22 business days standard

[10] Proposed 2010 anchor dates for updates are: March 31, June 30, September 30, and November 30

[11] Targets apply to trades between the CMD dealer firms and exclude CMD to non-dealer trades

[12] This commitment relates to the Percentage of Electronic Eligible trades that are confirmed electronically

[13] Targets for energy and metals relate to industry averages and not firm specific benchmarks

    - Target 2: Beginning with April 2010 month-end data for metals trades between the CMD and for each subsequent month's data, on a volume weighted average basis no less than 85% of the electronically eligible population will be confirmed electronically.
- These targets will be interim, and not end-state, targets. The CMD will set new targets once these interim targets have been achieved. Additionally, the CMD will update the monthly metrics reporting that is provided to Supervisors to incorporate trend-reporting relating to these new targets. The current reporting for "other" products will continue and an analysis of the product breakdown in the "other" category will be delivered to Supervisors by December 30, 2009 to determine potential targets.
- <u>Electronic Platform Usage Survey:</u>
    - On a quarterly basis, the CMD will provide an update on the usage of electronic confirmation platforms within the CMD firms. A summary report will be published to Supervisors and the Commodities community beyond the CMD. Additionally, a more detailed report (detailing information at the individual firm level) will be produced and distributed to Supervisors and CMD members.
    - The CMD will institutionalize this survey on a quarterly basis. The updated results will be published to the Supervisors for review and comment.
- <u>Metrics and Reporting</u>: On a quarterly basis, the CMD will publish for the Supervisors a trend analysis and supporting commentary relating to: the size and nature of market activity, number of outstanding confirmations together with aging profiles, and the degree of automation within the confirmation process.
- <u>Commodities Operations Whitepapers</u>: The CMD commit to consolidating the three Commodities Operations Whitepapers into a consolidated document and publishing the consolidated document through ISDA by December 30, 2009. By March 31, 2010, the CMD will review the findings and recommendations of the paper with Supervisors to identify priorities and next steps to further improve the post-trade processing infrastructure.
- <u>Portfolio Compression</u>
    - The CMD commit to continue to participate in bi-lateral trade compression and, where justified, (based on results of potential execution risks/costs versus benefits) multi-lateral trade compression solutions where appropriate.
    - As part of this on-going process, the CMD team will include the results in terms of the levels of participants and impact of any coordinated multi-lateral compression runs as part of the quarterly trend reporting process to Supervisors.
- <u>CMD to Non-dealer Efforts:</u> To progress actions on the five key operational areas for non-dealer trade activity, the CMD in consultation with appropriate non-dealer market participants will deliver a roadmap and timeline addressing governance and communication, documentation take-up, electronic matching, enhanced metrics and collateral management practices by April 30, 2010.