



DTCC Deriv/SERV LLC

FIA – Nuts and Bolts of Clearing Credit Default Swaps

April 7, 2009

Frank De Maria

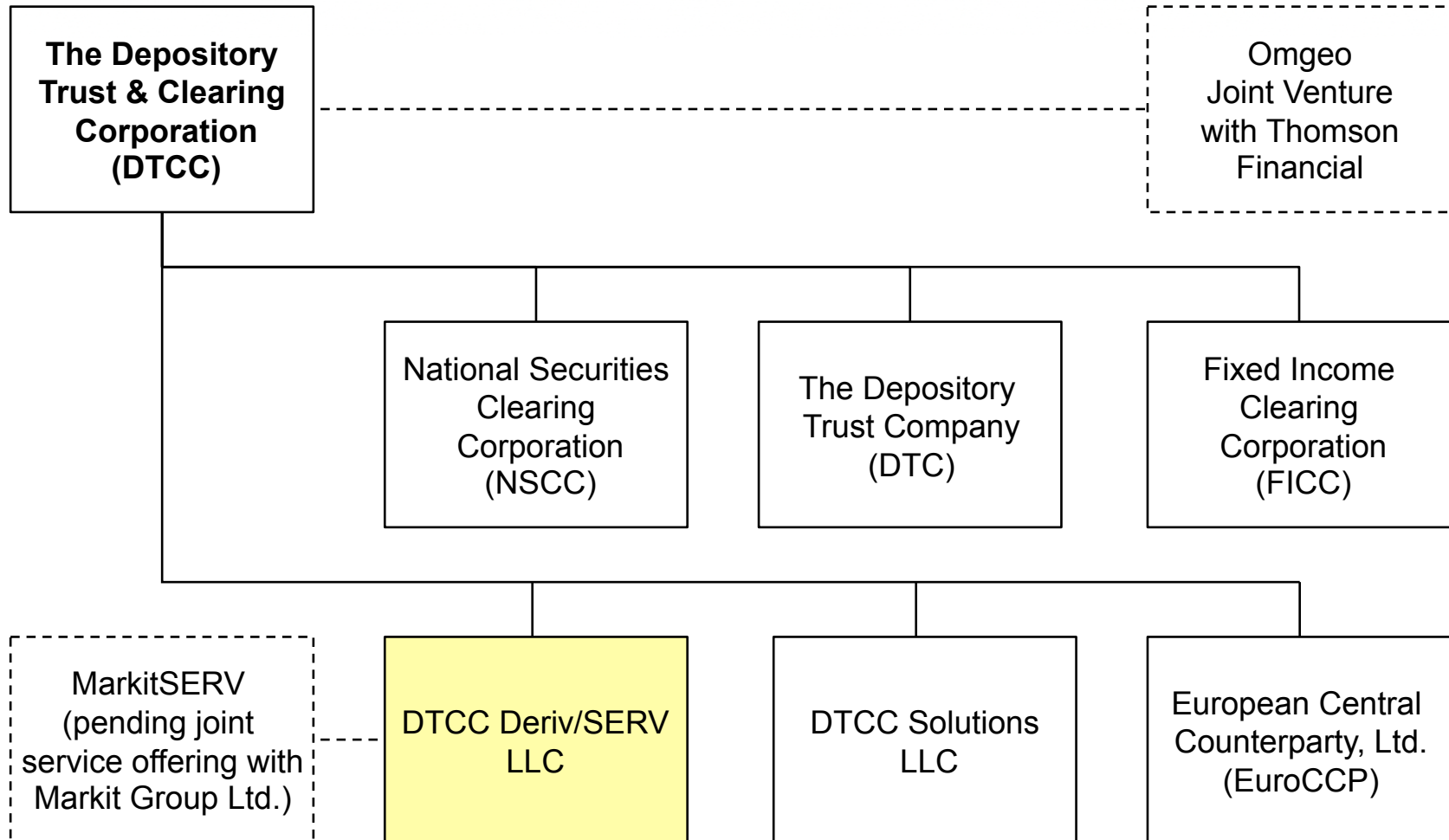


Agenda

- DTCC Corporate Structure and Governance
- DTCC Deriv/SERV Services
- Trade Information Warehouse
- Auction Hardwiring
- New CDS Contract 100/500



DTCC Corporate Structure





DTCC Deriv/SERV LLC Governance

- User Governing Committee
 - Authority delegated by DTCC Board
 - 12 representatives from major market participants
 - 50% from US institutions, 50% from European institutions
 - ✓ Bank of America, Bank of New York/Mellon, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley
 - ✓ Barclays, BNPParibas, Credit-Suisse, Deutsche Bank, Societe Generale, UBS
 - 50% of individual representatives are resident in US, with remainder resident in Europe
 - Operates on a not-for-profit basis – user governance approves tariffs and rebate of excess revenue, spend, strategic direction and new products



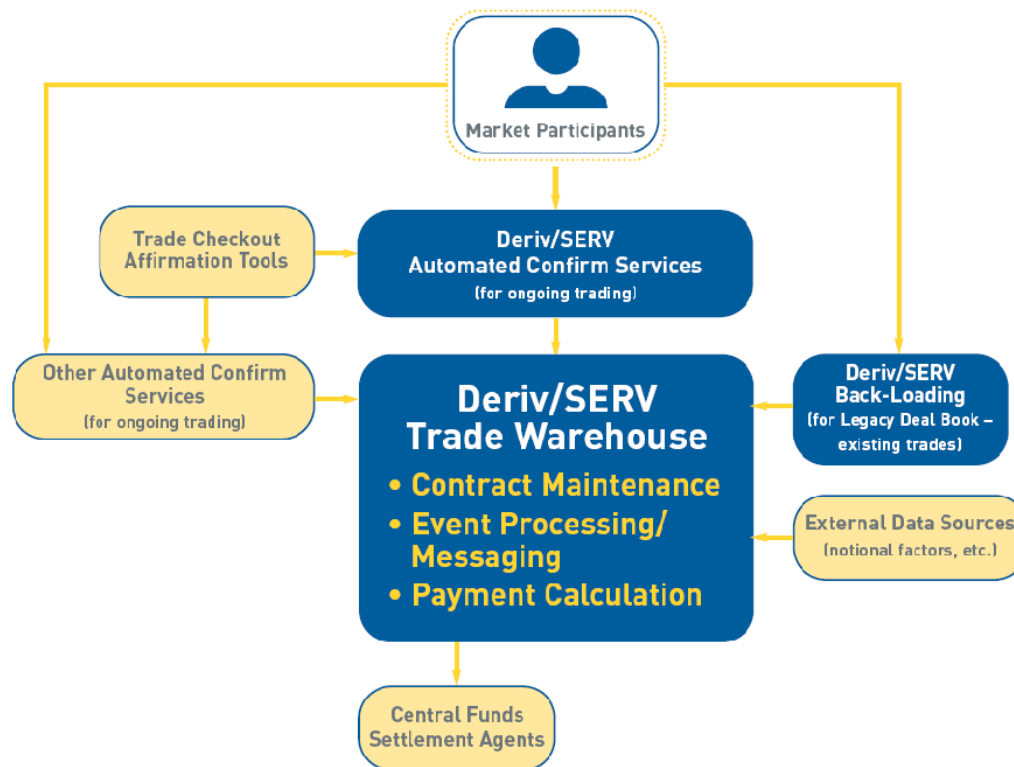
DTCC Deriv/SERV LLC Services

- Electronic Confirmation/Matching
 - Covers OTC credit, rate and equity derivatives
 - ✓ *Greater than 95% of credit derivative market worldwide (including all single name, index, index tranche, CDS on loans and loan indices, CDS on ABS, CMBS and RMBS and asset backed and commercial mortgage indices)*
- Trade Information Warehouse (for credit derivatives)
 - Central trade registry and public reporting of positions and turnover
 - ✓ *All electronically confirmed CDS are registered in Warehouse (2.25 million contracts; 27.2 trillion gross notional value in USD equivalent)*
 - Central hub for life-cycle event processing and facilitation of other infrastructure providers (e.g., CCPs, trade compression providers, custodians, fund administrators, etc.)
 - Central payment calculation, netting and settlement (through link with CLS Bank), including net cash settlements for credit events



DTCC Deriv/SERV Architecture

DTCC DERIV/SERV WAREHOUSE





Trade Information Warehouse (TIW)

Central Trade Registry

We publish weekly positions and turnover for:

- ✓ Top 1,000 single names (of 3,000 total names in Warehouse), both gross and net
- ✓ All indices, both gross and net
- ✓ Aggregates, on a gross basis
- ✓ Introduced weekly gross trade and other position turnover data in 2009

We currently provide additional data to FRB, ECB and FSA in support of their own regulatory missions (and have committed to provide data to all interested regulators)



Trade Information Warehouse (TIW)

Central Processing Hub

- *Clearing processed through the TIW, where applicable.*
- *Compression and tear-ups processed through the TIW.*
- *Credit Events processed through the TIW.*
- *Successor events processed through the TIW.*
- *Maturities processed through the TIW.*
- *Bulk events such as mass terminations and novations processed through the TIW.*
- *Bulk Amendments processed through the TIW.*



Trade Information Warehouse (TIW)

Central Processing Hub – Use to Date

- Working with 4 CCPs to support clearing efforts (ICE, Eurex, LIFFE, CME)
- Supporting the two leading compression and tear-up providers
- 13 other service providers currently linked to the Warehouse
- Centrally processed 9 credit events last year, with 21 new credit since January 2009 on a concurrent basis - enabling TIW to calculate payments based on auction rates and settle through CLS where applicable
- Successor event processing in place, one event processed last year, with 3 more pending resolution of legal issues by ISDA
- All maturities are automatically processed
- 4 bulk transfers and mass terminations processed last year (including Lehman), with 3 currently pending



Trade Information Warehouse (TIW)

Central Settlement Processing

Includes regular fee and coupon payments as well as net cash settlement for credit events

- Currently all major global dealers centrally settle via TIW and CLS
 - ✓ All major currencies
 - ✓ Multi-lateral net funding of obligations
 - ✓ Creates settlement certainty
 - ✓ Eliminates *nostro* breaks

Example - *Lehman credit event had \$72 billion in gross obligations, which netted to \$5.2 billion in net funding obligations.*

- Efforts underway to on-board non-OMG banks and buy-side globally



Auction Hardwiring

- **Big Bang**
 - Scheduled for adherence to begin on March 12nd and to close on April 7th.
 - It will become effective as of April 8th covering trades with a trade date of BEFORE April 8th and effective date ON or BEFORE April 8th.
 - This Supplement establishes the Credit Derivatives Determinations Committees, adds the Auction Supplement Settlement provisions, and creates Credit and Succession Event backstop dates
- ***Determination Committee (DC)***
 - There will be 5 different DCs by region (Americas, Europe Middle East Africa [EMEA], Asia ex-Japan, Japan, and Australia New Zealand).
 - Each DC has 15 voting members: 8 Global Dealers, 2 Regional Dealers, 5 buy-side firms plus 3 non-voting dealers and 1 voting buy-side firm.
- **“Covered” transactions subject to the DC’s rulings**
 - Excluded transactions are at a high level:
 - ABS & related indices (ABX/CMBX)
 - LCDS/ELCDS & related indices (LCDX and LevX)
 - CDS on Muni & related indices (MCDX)
 - Bespoke portfolios based on CLNs
 - CDS on CDO



100/500 New CDS contract

- Standard North American CDS contract
 - Standardize Single-Name trading
 - Investment-Grade names trading on a 100 bps spread and quoted with a flat curve spread
 - High-Yield names trading on a 500 bps spread and quoted as points up-front
- Confirmation of “SNAC” contracts
 - **Matrix:** ISDA will publish an updated Matrix that includes a new "Standard North American Corporate" Transaction Type.
 - **Master Confirmation Agreement (MCA):** Firms can trade “SNAC” contracts using existing MCA's
 - **Paper Confirmations:** A standard long-form template is under development to ensure that paper trades match the intended terms of the 100/500 trades.



100/500 New CDS contract

Changes to Existing Template

- There are no new fields or changes to any of the various messaging templates.
- The FpML committee has agreed on the valid value for the matrix as
 - Matrix: StandardNorthAmericanCorporate
 - MCA: ISDA2003StandardCreditNorthAmerican

- DTCC will overwrite several fields including:
 - Effective date
 - Payment frequency
 - First Fixed Rate Payer Payment Date,
 - Single Payment Date



Questions?

- For further information, please contact:

Frank De Maria 212-855-2707 fdemaria@dtcc.com

or

Peter Axilrod 212-855-2705 paxilrod@dtcc.com