

# Global Documentation Steering Committee

September 29, 2006

**Thomas A. Russo**  
Co-Chairperson, Lehman Brothers

**Jane D. Carlin**  
Co-Chairperson, Morgan Stanley

**Joshua D. Cohn**  
Allen & Overy

**Daniel P. Cunningham**  
Allen & Overy

**Alan B. Kaplan**  
Barclays Bank

**Mala Greenberger**  
Bear Stearns

**Locke R. McMurray**  
BNP Paribas

**Scott L. Flood**  
Citigroup

**Seth Grosshandler**  
Cleary Gottlieb Steen & Hamilton

**Michael D. Dayan**  
Cleary Gottlieb Steen & Hamilton

**Ernest C. Goodrich, Jr.**  
Deutsche Bank

**Michael M. Chamberlin**  
EMTA

**Aviva Werner**  
EMTA

**Joyce Hansen**  
Federal Reserve Bank of New York

**Ricardo Salaman**  
Goldman, Sachs

**Robert G. Pickel**  
International Swaps and Derivatives Association

**Kimberly A. Summe**  
International Swaps and Derivatives Association

**Don Thompson**  
JPMorgan Chase

**John Vollkommer**  
JPMorgan Chase

**Zdenka Griswold**  
Lehman Brothers

**Elliot Ganz**  
Loan Syndications and Trading Association

**Garret Filler**  
Managed Funds Association

**Christopher L. Ramsay**  
Managed Funds Association

**Sharmini Mahendran**  
Morgan Stanley

**Marjorie E. Gross**  
The Bond Market Association

**Bryan M. Murtagh**  
UBS

To Market Participants:

## Re: Policy Statement on Trader Authorization Letters

The Global Documentation Steering Committee (the “Committee”) has noted that certain financial market participants are sending dealers in derivatives and other financial products letters (“Trader Authorization Letters”) that restrict trading authority and confirmation of transactions to certain specified individuals and may request that the dealing firm ensure compliance with its counterparty’s investment guidelines. The Committee is issuing this policy statement to market participants transacting in all securities and foreign exchange trading, financial derivatives, repurchase and other similar financial market transactions to strongly discourage the use of Trader Authorization Letters.

Trader Authorization Letters may take many forms. Many of them restrict trading authority to a list of specified individuals. Some specify restrictions with respect to currency, amounts that may be traded, type of instrument and employees who may confirm trades or provide settlement instructions. Some of them also require compliance with the requesting company’s investment guidelines.

As stated in the Foreign Exchange Committee’s letters to market participants dated February 2004 and July 14, 2005, trade authentication is a key component of effective market, operational, legal and reputational risk management. In order to ensure the prudent management of these risks, each market participant must be responsible for its staff’s adherence to internal guidelines and authorization restrictions. Trader Authorization Letters, by attempting to shift the burden of enforcing compliance with internal policies and controls from the participant or its agent to the dealing firm, are inconsistent with best practices in the financial markets and increase systemic risk.

Parties may agree that a dealer will adhere to the requirements of a Trader Authorization Letter after the dealer has implemented procedures that are satisfactory to the dealer. These procedures may include requiring the sender of the Trader Authorization Letter to adhere to a list of designated salespeople employed by the dealer with whom the sending firm’s traders may interact. But unilateral attempts to externalize internal controls are not consistent with best practices and must be discouraged.

The recipient of a Trader Authorization Letter may wish to reply to such a letter in the event that the recipient has a policy, and wishes to assert that policy, or not agreeing to such a letter. The Committee has drafted a model response letter which is contained in the annex attached to this policy statement.

Very truly yours,

Thomas A. Russo, Committee Co-Chairperson  
Vice Chairman and Chief Legal Officer  
Lehman Brothers

Jane D. Carlin, Committee Co-Chairperson  
Managing Director and Global Head of Operational Risk Management  
Morgan Stanley

[ABC FIRM]

[Date]

[ENTITY]

[Address]

[City, State Zip]

Attention: [Person or Department]

Re: Trading authorization for [entity] (“Customer”) relating to [repo/forward/secloan/fx/swaps/listed derivatives] transactions [or reflect the re: line of the notice to which a response is being made]

Dear \_\_\_\_\_:

The undersigned (“[ABC]”), [have] [has] received your notice (attached) regarding authorized persons, investment guidelines, etc. on behalf of Customer.

Given the speed, nature and methods of trading in securities and other trading markets, it is difficult for us to verify the authority of every Customer representative with whom we execute a transaction and whether the transaction complies with Customer’s investment guidelines.

Unless specifically agreed in writing to the contrary and subject to applicable law, when executing transactions, we rely on Customer’s internal controls to ensure that Customer’s personnel who contact [ABC] to conduct business are both properly identifying themselves and properly authorized to enter into the transactions that they request and the transactions are compliant with Customer’s investment guidelines. The pace of various markets and our lack of control over and complete information regarding our counterparties’ organizations mandates that we rely upon counterparties to provide appropriate internal supervision for their personnel, particularly with respect to trader authorizations and any relevant investment guidelines, limitations and/or risk parameters. We must assume that the persons entering into transactions on your behalf are doing so in accordance with your guidelines, policies and corporate authorizations. We are prepared to enter into transactions with you or execute them on your behalf with the understanding that trading authority and compliance with your guidelines are purely internal matters for you, and accordingly, that any failure on the part of you or your representatives to adhere to your guidelines has no bearing on the binding nature of any transaction you enter into with us.

You should receive records evidencing trade details, whether in the form of confirmations pursuant to a relevant trading agreement or other statements of transactions. Timely review by you of such records should disclose any issues that you may have with the authorization of transactions. If you should have any concerns (including regarding the names of recipients of confirmations), please contact your [ABC] sales representative.

Sincerely,

[ABC BROKER-DEALER INC.]  
[ABC COMMERCIAL PAPER INC.]  
[OTHER RELEVANT ABC ENTITIES]