March 10, 2006

Mr. Timothy Geithner
President
Federal Reserve Bank of New York
33 Liberty Street, 10F
New York, NY  10045

Dear Mr. Geithner:

Following the February 16 meeting, we are pleased to update you on our continued progress toward improving Credit Derivatives industry practices. The fourteen industry participants present at the September and February meetings (the “Major Dealers”) are committed to achieving a stronger steady state position for the industry defined as:

- A largely electronic marketplace, where all trades that can be processed electronically through an industry-accepted platform will be processed electronically
- Affirmation of trade details and execution of confirmations within standard industry timelines
- Accurate open trade populations, correct, complete and timely payments, and smoother credit event management, to be achieved in large part through the use of an industry utility trade contract warehouse
- A new procedure for settlements following a credit event, providing for net physical settlement at a single auction-based price
- Further reduction of outstanding unsigned confirmations across the industry

**Standard Industry Processing Guidelines**

The Major Dealers are committed to working with our buy-side clients toward the development and implementation of industry wide Guidelines by October 31, 2006, which will include the following:

- All confirmable trade events (trades, novations, terminations, etc) that can be processed electronically through an industry-accepted platform (“Eligible Trades”) should be processed electronically, through DTCC or any other comparable electronic platform as agreed bilaterally between each Major Dealer and its counterparties (each, an “Electronic Platform”). This Guideline will apply at minimum to clients meeting the volume threshold of four Eligible Trades per month with any one Major Dealer.
- Details of Eligible Trades should be submitted to the relevant Electronic Platform no later than T+1 business day and matched/affirmed (and any rejections/exceptions/discrepancies resolved) no later than T+5 business days.
- Confirmations for non-Eligible Trades should be issued no later than T+10 calendar days. The recipient should return the executed confirmation to the issuing dealer or outline the issues which need to be resolved no later than 10 calendar days following receipt of the confirmation. The trade should be confirmed (or resolved in the case of breaks) no later than T+30 calendar days.
To further mitigate risk, all non-Eligible Trades are to be positively affirmed between the counterparties no later than T+3 business days, or by T+5 business days for any Eligible trades, as described in “Commitments among the Major Dealers” below.

Exceptions to the Guidelines are likely to occur. All exceptions will be closely tracked, based on agreed metrics, and explained and/or escalated appropriately to management within each Major Dealer.

The monthly metrics submissions to our primary supervisors will be revised to reflect the Guidelines above where appropriate.

The Major Dealers recognize these guidelines can only be met through the development of appropriate processes which, particularly in the case of non-Eligible Trades, may include several interim steps.

Confirmation Backlog Reduction

Each Major Dealer commits to a 70% reduction in its number of confirmations outstanding for more than 30 days on June 30, 2006 from those outstanding more than 30 days on September 30, 2005.

Commitments among the Major Dealers

To implement the Guidelines as well as to achieve the interim backlog reduction targets discussed above, the Major Dealers commit to the following initiatives:

- **Economic Affirmations and Confirm Executions / Risk Mitigation**
  1. The Major Dealers will work with our clients to positively affirm all non-Eligible Trades no later than T+3 business days. This will include the affirmation of significant financial details of the trade, and may be done via phone, email or other electronic means as agreed bilaterally. For Eligible Trades, any trades unmatched after T+5 business days will also be subject to economic affirmation.
  2. The Major Dealers will promote industry tools to our clients that seek to facilitate consent and affirmation of new trades and novations on trade date. Additionally, the Major Dealers will support electronic messaging and straight through processing (STP) of new trades with interdealer brokers.
  3. To further facilitate confirm execution, the Major Dealers will actively participate in the industry-established lock-in schedule for 2006.

- **Development of Electronic Industry Capabilities**
  1. The Major Dealers will continue to work within the appropriate industry forums (e.g. ISDA) to accelerate the process of creating templates for new products as they develop in the market.
  2. The DTCC Senior Operations Working Group will work with DTCC to prioritize new products for automation. Electronic enablement of CDS on single ABS (specifically RMBS and CMBS) is next in line.
  3. While substantial work is being undertaken with DTCC, it is not intended that DTCC will be an exclusive provider of electronic services for this market. The Major Dealers
remain open to working with other service providers and are free to use any alternative Electronic Platform.

- Transparency and Communication
  1. We are committed to continuing to produce monthly metrics to enable supervisory insight into our operations and progress toward the goals in this letter.
  2. Major Dealers have provided or will provide for sufficient operational and legal resources to achieve the outlined targets. Major Dealers also have or will put in place the necessary internal communication procedures across their operations teams (flow vs. structured, regional hubs, etc), as well as internal escalation procedures to appropriate management (sales, operations, credit, etc).

DTCC Central Industry Trade Information Warehouse

The Depository Trust & Clearing Corporation (DTCC) has announced its plans to create a central industry trade information warehouse and support infrastructure to automate and centralize "downstream" processing over the life of a credit derivatives contract. The solution will consist of a central trade information warehouse for credit derivatives - essentially a comprehensive database containing the "golden copy" of each contract – and a central support infrastructure that standardizes and automates downstream processes throughout the life of each contract. The Major Dealers are fully committed to this initiative and open to connecting it to other front-end efforts underway at DTCC and at other providers. We view this as a material step forward in reducing operational risk and increasing operational efficiency in the credit derivatives market.

Net Physical Settlement of Credit Events

The Major Dealers have been working closely with ISDA, the members of CDS IndexCo LLC and International Index Company, and various service providers to develop a new framework for the settlement of credit derivatives contracts following a credit event. The settlement solution will provide for net physical settlement at a single auction-based price. It is anticipated that these provisions will have the effect of 1) reducing the impact of credit derivatives on the volatility in the price of debt of the Reference Entity connected with the settlement of a Credit Event, 2) ensuring a close connection between the settlement value of a CDS and the price of the obligations which may be used to settle the CDS contract, and 3) reducing operational risk and expense related to the settlement of CDS contracts. The Major Dealers agree that upon completion of the trade warehouse and other necessary platforms, net physical settlement will be routinely incorporated into new trades and the dealers will work with clients to amend existing trades. A call was hosted by ISDA on January 30th in order to outline the "Net Physical Settlement" proposal to the market in general. Following that call, ISDA circulated a draft of the proposed 2003 ISDA Credit Derivatives Definitions Supplement for comment to the ISDA Credit Derivatives Market Practice Committee and held a second call on March 2nd to discuss it.

Ongoing Commitment to Maintaining Industry Momentum

The tactical steps needed to meet these commitments are expected to develop and change over time as we address new or unforeseen issues in the market. We may find that a tactical step that we think will solve the problem today may not, without modification, get us all the way to the
steady state. For example, the implementation of the Novation Protocol has greatly reduced the time to confirm novations, but the market now realizes we need to work towards a straight through processing (STP)-like consent-to-novation process, as discussed above, which itself requires tools and processes on both the dealer and client sides. Development of the tactical steps will include a continued dialogue with investors in the market through organizations such as the Managed Funds Association and the Asset Managers Division of the Bond Market Association. The Major Dealers will continue to track our progress at regularly scheduled meetings, with major checkpoint discussions planned for May 15 and July 31, 2006. We will also continue to provide informal updates to the Federal Reserve and other regulators as we proceed.

Yours Sincerely from the Senior Managements of:

Bank of America, N.A.
Barclays Capital
Bear, Stearns & Co.
Citigroup
Credit Suisse
Deutsche Bank AG
Goldman, Sachs & Co.
HSBC Group
JP Morgan Chase
Lehman Brothers
Merrill Lynch & Co.
Morgan Stanley
UBS AG
Wachovia Bank, N.A.
Note: Identical letters sent to:
Board of Governors of the Federal Reserve System
Chicago Board of Trade
Chicago Board Options Exchange
Chicago Mercantile Exchange
Commodity Futures Trading Commission
Connecticut State Banking Department
Federal Financial Supervisory Authority (BaFin)
Financial Services Authority
Federal Deposit Insurance Corporation
New York State Banking Department
New York Stock Exchange
Office of the Comptroller of the Currency
Office of Thrift Supervision
Public Company Accounting Oversight Board
Swiss Federal Banking Commission
U.S. Securities and Exchange Commission