



A New Derivatives Market:
Tackling Trade Workflow

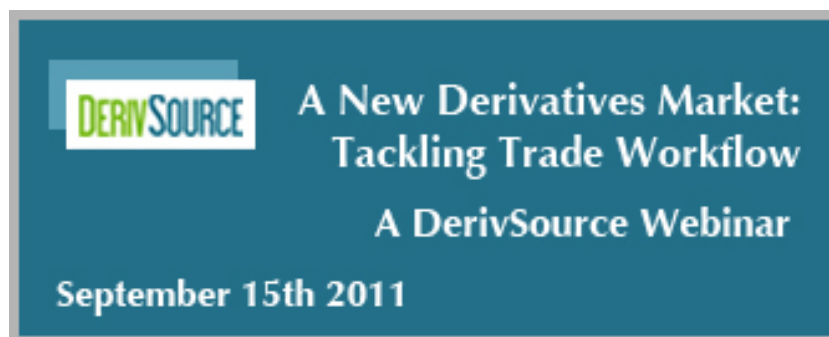
A DerivSource Webinar

September 15th 2011

A New Derivatives Market: Tackling OTC Post-Trade Workflow

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Today's Discussion

The new post-trade workflow of processing OTC derivatives in a new Dodd-Frank environment is complex web of new connectivity, data and reporting requirements that proves to be confusing for most market participants. In this DerivSource webinar, the panel aim to clarify how this new trade workflow will operate and the various functions interrelate so attendees can start tackling the changes needed to meet new rules and requirements now.

The panel will discuss workflow as it pertains to trading via SEFs, clearing via CCPs and appointed FCMs/DCMs as well as reporting transactional data to newly established SDRs. The audience will be briefed in various definitions and new terms and will have an opportunity to ask the panel questions at the end of the event.

More specifically, the panel will review the following trade workflow topics:

- Trading and Execution
- Clearing and Margin Management
- Reference Data and SDR Reporting
- What's Next? What are the predictions for 2012?

Bill Thum

Bill Thum is Principal at **Vanguard Investments** where he is responsible for derivatives legal support including coverage of fixed income and equities trading, policy and negotiation of derivatives trading agreements, implementation of derivatives clearing, and advice and comment on derivatives regulatory reform.

Mr. Thum has previously worked at Morgan Stanley and law firm Fried Frank. He is actively involved in industry groups including the International Swaps and Derivatives Association (ISDA).



Frank De Maria

Frank De Maria is a Managing Director of **Credit Suisse** in the Investment Banking division, based in New York.

Mr. De Maria is the global Head of the Strategic Change Group for the OTC Product Family in Investment Banking Operations. Mr. De Maria joined Credit Suisse in June 2010 from MarkitSERV, a derivative industry joint venture between the DTCC & Markit.

Prior to this role, Mr. De Maria was a Managing Director and global head of Derivative Operations at Merrill Lynch, having also served as CFO of the Global Rates business.

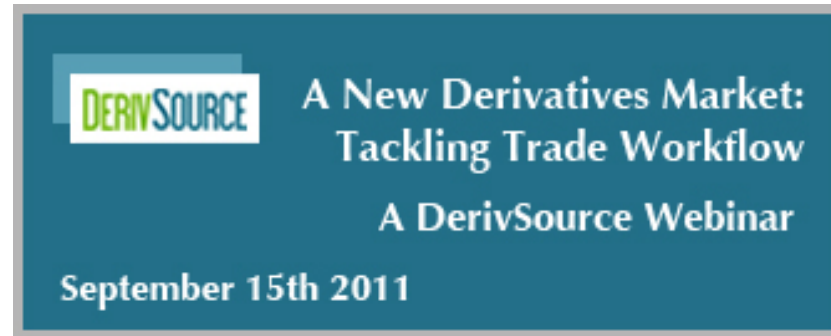
Previous experience also includes serving as CFO of Oversight Partner I, the small industry group tasked with unwinding Long Term Capital as well as various operations and finance positions with Soros Fund Management, Bankers Trust and the Federal Reserve Bank of NY.



Joe Sack

- **Joe Sack** is the founder of **Sack Consulting** and provides advice to financial services firms regarding the implementation of regulatory reform in the global investment markets.
- Joe, a lawyer, served as Managing Director of the Asset Management Group at SIFMA from 2006 to 2010. Previously, Joe was an EVP at the Bond Market Association where he organized industry-wide lobbying initiatives for fixed income bond underwriters and technology and operations professionals.





Members of the Press

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Name: William Thum

Date: September 15, 2011

Confidential

Background: Dodd-Frank Derivatives Mandates

- “Swaps” and “Security-based Swaps” (collectively “Swaps”) must be reported to a “Swap Data Repository”
- “Standardized Swaps” (not yet defined) must be centrally cleared
- “Standardized Swaps” “made available for trading” (not yet defined) must be traded on an exchange or “Swap Execution Facility” (a “SEF”)
- Exposures related to uncleared Swaps must be collateralized (rules are not yet finalized)



Preparing for Reform: Initial Steps

- Select Futures Commission Merchant(s) (“FCM”) - assess:
 - Financial strength of FCM or parent guarantor
 - Depth and breadth of platform (ability to clear and/or net multiple products)
 - Business (costs and margin) / legal (documentation) issues
- Select Derivatives Clearing Organization(s) (“DCO”) - assess:
 - Product coverage / margin levels
 - Financial safeguards (membership standards)
- Select SEF(s) – assess trade approval / allocation process and latency issues
- Negotiate Documentation – assess:
 - Upgrade futures agreement for cleared swaps (reconsider issues related to position limits, margin timing and adjustments, default cure periods, portability timing and mechanics)
 - Cleared Swaps Addendum (template not yet finalized by the FIA / ISDA working group)
- Test operational connectivity and reporting (using a sample portfolio)

Recent Reg. Proposals: Implementation Schedule

- Implementation Schedule (comment period TBD): “Swap Dealers” (“SDs”) and “Major Swap Participants” (“MSPs”) (both not yet defined) will have to meet swap reporting, clearing, margining and trading mandates on the below schedule following adoption of final rules:
 - 90 days – trading with other SDs, MSPs and “Active Funds” (funds trading an average of 20 trades per month over one year)
 - 180 days – trading with commodity pools, SEC-registered funds that aren’t “Active Funds” and ERISA plans (excluding third-party separate accounts)
 - 270 days – trading with other participants (especially third-party separate accounts)



Recent Reg. Proposals: Clearing Documentation

- Customer Clearing Documentation (comments due Sept. 30, 2011): The proposed rule prohibits arrangements that would:
 - Disclose the identity of a client's executing party,
 - Limit the number of executing parties with which a client could trade,
 - Restrict the positions a client could transact with an executing party (except for an overall position limit),
 - Impair a client's execution on the best terms available, and / or
 - Prevent compliance with specified time frames for clearing.

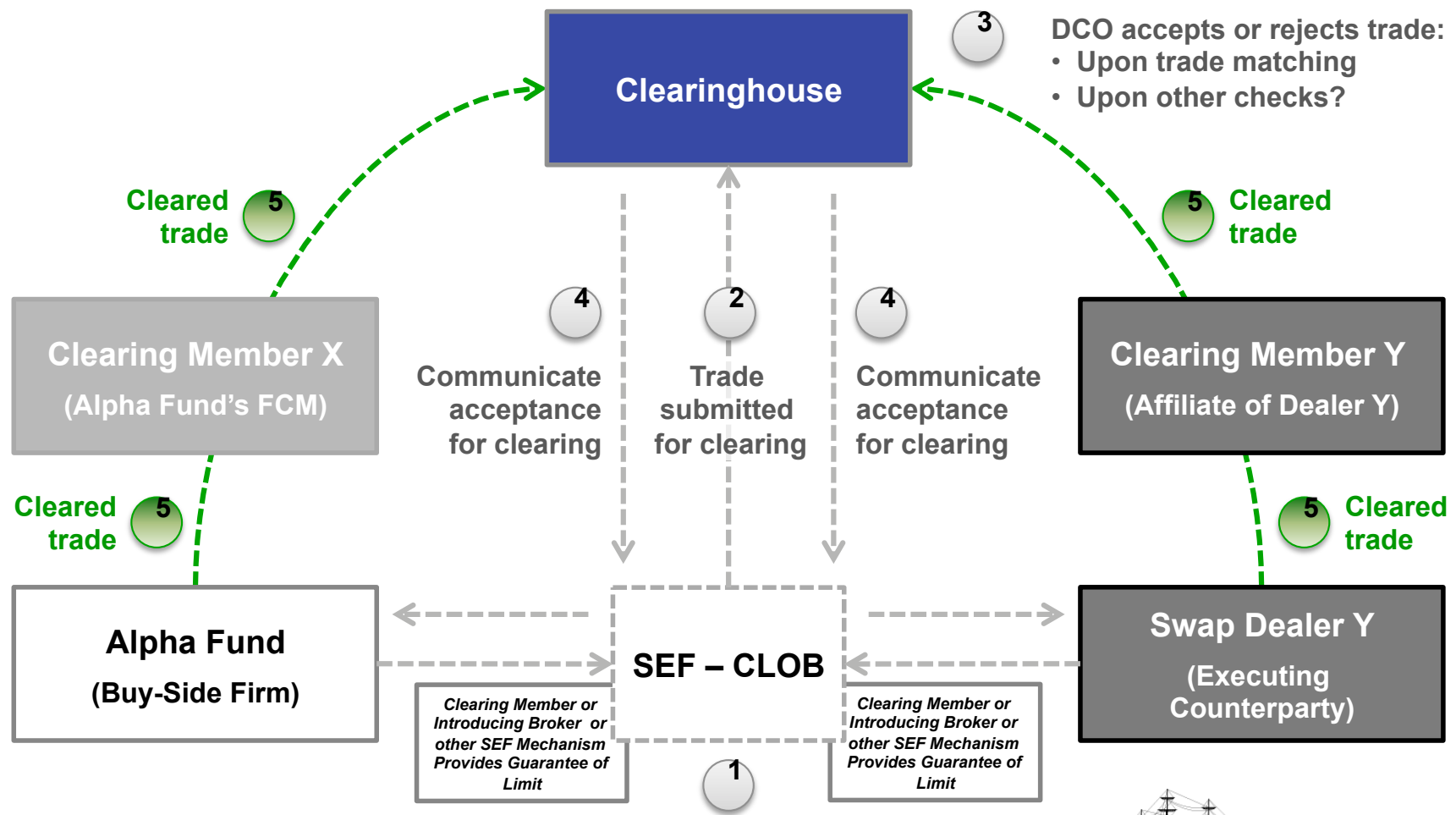
FIA / ISDA Working Group – Status Update

- June 16, 2011: FIA / ISDA published a Cleared Derivatives Execution Agreement (“Execution Agreement”)
 - Allocates the risk and provides a valuation approach for trades rejected for clearing
 - Optional approach: Bilateral (between client and executing party) or Trilateral (between client, executing party and client’s FCM)
 - Sell-side says trilateral approach is needed for FCM to effectively “guarantee clearing” of trades within executing party-specific position limits
 - Buy-side says trilateral approach risks FCM control over client’s selection of executing parties (buy-side prefers to trade within an overall position limit)
- FIA / ISDA finalizing Cleared Swaps Addendum to Futures Agreement
 - For use in supplementing existing Futures Agreements for cleared swaps

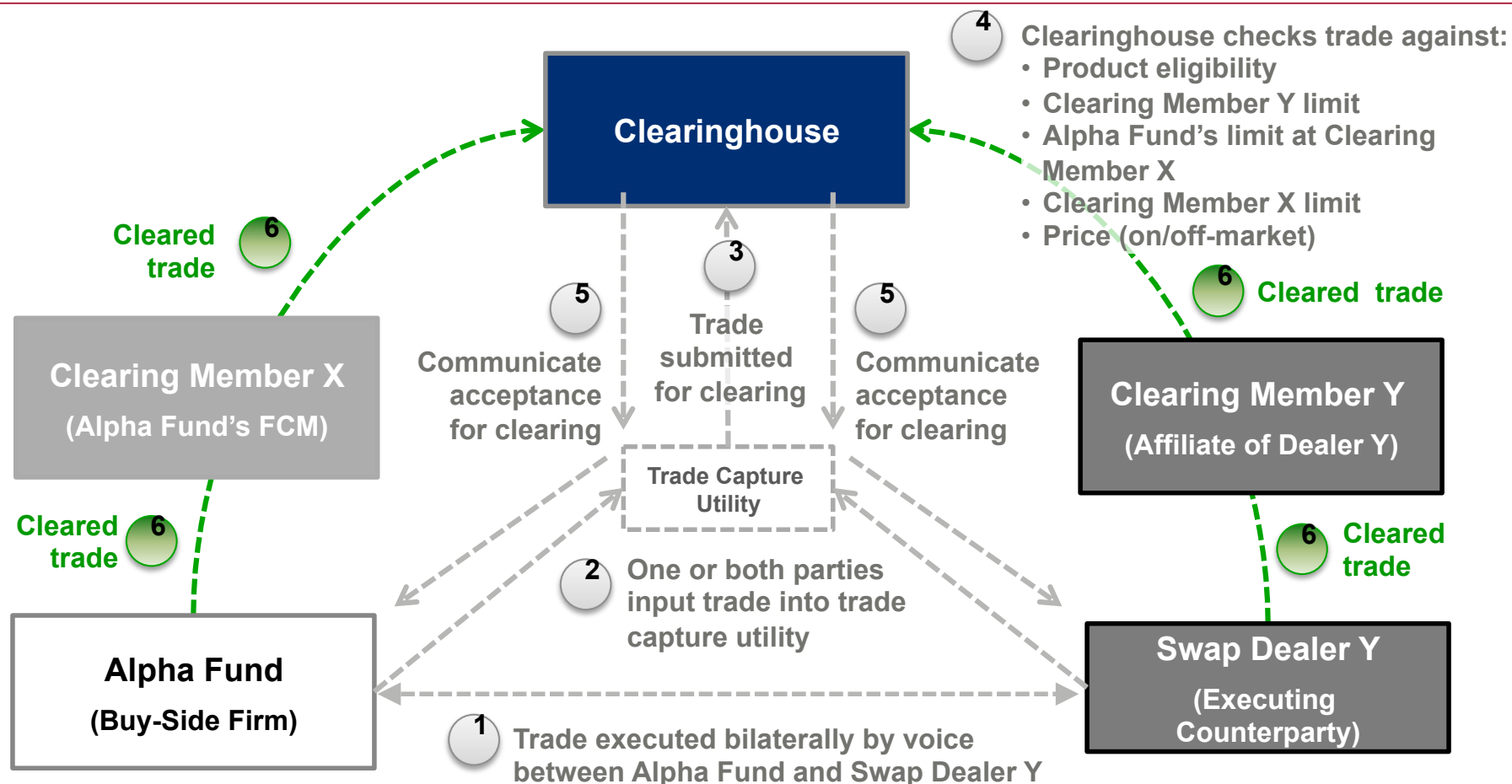


Vanguard

Pre-trade Approval: SEF trade on Central Limit Order Book is Guaranteed by FCM



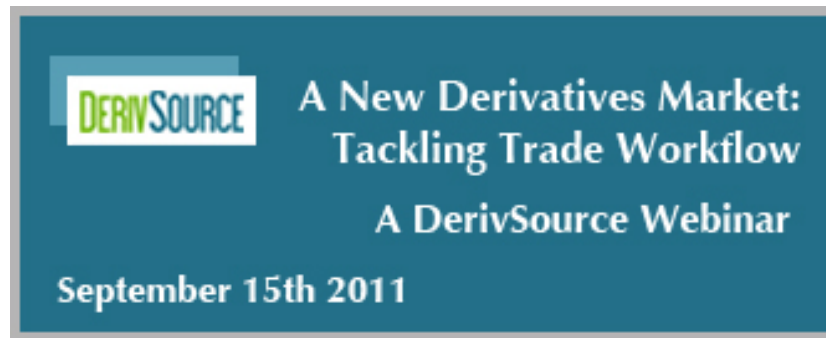
Post-trade Approval: Voice trade (off SEF) is entered into an electronic trade capture system



Open Issues:

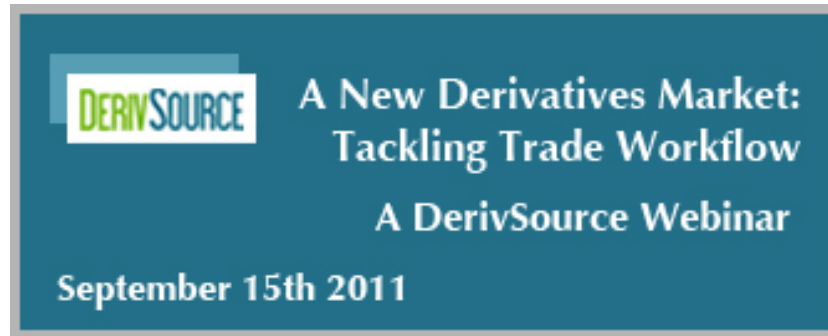
- Minimize the delay between trade execution and clearing acceptance or rejection
- Address the problem of post-trade allocations across managed funds and/or across FCMs
- Minimize the risks and costs associated with clearing rejection

- Note: Workflow diagrams produced for FIA / ISDA Working Group



Q&A Session

Please submit questions to the Q&A section now.

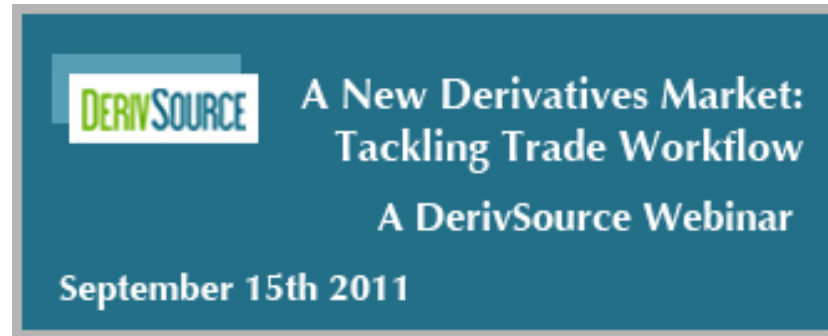


Thank You

Bill Thum, principal at Vanguard Investments

Frank De Maria, managing director at Credit Suisse

Joe Sack, founder of Sack Consulting



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