



## Markit Trade Processing responds to the Federal Reserve Bank Letters and President's Working Group

August 2008

The **Markit Trade Processing** team would like to ensure that you are aware of how our services address recently announced industry initiatives. The first set of initiatives was introduced in a letter submitted to the Federal Reserve Bank of New York on March 27. This letter was followed by a second letter to the Federal Reserve Bank on July 31 outlining stricter guidelines. The Fed letters welcome “the commitments made by major market participants to improving over-the-counter (OTC) derivatives processing.” The second set of initiatives was introduced in a policy statement made by The President’s Working Group on Financial Markets (PWG) that provides “a comprehensive set of recommendations to address ... weakness in global markets, institutions, and regulatory policies.” The Fed letter commitments and PWG recommendations directly impact your firm. Markit Trade Processing services can support you in achieving the mandates with our suite of automated processing solutions, including:

- Legal confirmation of OTC derivative trades on trade date
- Electronic distribution of trade allocations from investment managers to dealers
- Fully electronic novation consent process
- Automatic DTCC trade submission on trade date via real-time MQ link
- Improved matching rates on DTCC through confirmable fields data enrichment, ISDA Physical Settlement Matrix support, and integration with Markit RED
- Position reconciliation and valuation comparison tools

For further information about Markit Trade Processing services, please contact us:

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**Specific commitments and recommendations and the respective Markit Trade Processing solution follow:**

Source	Commitments and Recommendations	Markit Trade Processing (MTP) Solution
Fed	<b>Buy-side participants are expected to always provide correct trade allocations by close of local business on T+0.</b>	<p>The MTP Markit Wire (formerly Swapswire) confirmation service platform offers confirmation and allocation of trades on T+0. MTP’s new Allocations service provides an innovative solution to dealers. The services:</p> <ul style="list-style-type: none"> <li>▪ deliver allocations on T+0</li> <li>▪ eliminate manual re-keying of allocations</li> <li>▪ support OTC credit, rates, and equity derivatives</li> <li>▪ provide full STP with FpML sent directly to risk systems</li> <li>▪ eliminate the need for dealers to look up the original trade on post-trade transactions</li> <li>▪ handle partial and full assignments and terminations, modifications, cancels, and suspense accounts</li> </ul>
Fed	<p><b>Major dealers [are expected] to affirm [equity derivatives] following execution, similar to ... the credit derivatives market.</b></p> <p><b>By January 31, 2009, 75% of electronically eligible, confirmable transactions with all counterparties shall be processed on electronic platforms.</b></p>	<p>MTP is the only platform that combines:</p> <ul style="list-style-type: none"> <li>▪ integrated Markit Wire (Swapswire) confirmation for OTC equity and rate derivatives,</li> <li>▪ automatic DTCC trade submission on trade date via real-time MQ link,</li> <li>▪ one of the most popular tools for electronic workflow of OTC derivative “paper” confirmations, eliminating the need for manual processing of faxes and emails, and</li> <li>▪ support for trade tie out across <u>all</u> OTC derivative asset classes: credit, rate, equity, commodity, and fx.</li> </ul>
PWG	<b>Supervisors should ask the industry to develop [a trade processing solution which] addresses all major asset classes and product types.</b>	

Source	Commitments and Recommendations	Markit Trade Processing (MTP) Solution
Fed	<p>For credit derivatives, by December 31, 2008:</p> <ul style="list-style-type: none"> <li>90% to 92% submission to DTCC on T+1,</li> <li>90% to 92% matching at DTCC without modification, and 92% to 95% matching at DTCC by T+5.</li> </ul>	<p>MTP is the leading platform for submitting credit derivatives to DTCC; Clients today consistently achieve T+0 submission well in excess of 90% submitted accurately.</p> <p>MTP clients achieve higher confirmation matching rates because of improved data submission. Match rates are improved by MTP's unique functionality that:</p> <ul style="list-style-type: none"> <li>allows firms to manage fields for data enrichment,</li> <li>fully supports the ISDA Physical Settlement Matrix and electronic allocations distribution,</li> <li>includes an optional review process for dealers (tie-out) before of DTCC submission, and</li> <li>integrates with Markit RED.</li> </ul>
PWG	Supervisors should insist that the industry promptly set ambitious standards for the accuracy and timeliness of trade data submission.	
PWG	Supervisors should insist that the industry promptly set ambitious standards for the ... timeliness of resolution of trade matching errors.	<p>The G-17 Dealer trade population across all of their counterparties was over 99% confirmed by T+3 in April 2008 over Markit Wire.</p> <p>The MTP Tie-Outs service expedites dispute resolution by providing an exception management workflow that focuses users on higher risk trades and provides integrated dispute resolution and email chasers.</p>
Fed	Participants will maintain a minimum standard of submitting electronically eligible trades or accepted alleged trades within 60 calendar days of each new product or service launch on DTCC or [SwapsWire].	As the only multi-asset class platform integrated with Markit Wire (SwapsWire) for confirmations and DTCC MQ for submissions, MTP is uniquely positioned to provide electronic solutions for the broadest array of products.
Fed	RED subscribers are to accurately submit 9-digit RED codes ... on 100% of index trades and 90% of single name trades.	MTP integrates Markit RED, providing RED auto correction of reference entities and ISINs for dealers and buy-side firms.
Fed	By late 2008, novation requests for electronically eligible trades are to be submitted electronically via any vendor solution.	MTP provides on-screen novation consent functionality. Also, planned integration with Markit Wire (SwapsWire) will leverage its already successful novation model and extensive dealer coverage.
Fed	By January 31, 2009, 75% of all eligible trades to be processed on an electronic platform.	MTP provides trade processing services for all OTC asset classes, not just credit derivatives. Our clients use MTP to process credit, rate, equity, commodity, and fx OTC derivatives.
PWG	Supervisors should ask the industry to develop [a trade processing solution which] addresses all major asset classes and product types.	
Fed	ISDA best practices for portfolio reconciliation to be implemented between major dealers by December 31 2008, including weekly portfolio reconciliation of OTC derivatives.	Markit PortRec provides all clients the ability to reconcile their positions on a daily, weekly, and monthly basis. Markit PortRec is used for both dealer-to-dealer and client-to-dealer reconciliations.
Fed	Develop an improved approach to managing disagreements over the valuation of trades by April 30, 2009 in order to reduce the severity of margin disputes.	<p>Markit PortRec automatically identifies critical economic issues and significant valuation differences to expedite the dispute identification process.</p> <p>Markit PortRec offers:</p> <ul style="list-style-type: none"> <li>real time communication and workflow assignment for better dispute management.</li> <li>connectivity to transaction details and confirmation activity to eliminate duplicate efforts across internal teams.</li> <li>dashboards to highlight top valuation differences by counterparty, account, product type, or asset class.</li> <li>threshold filtering to identify all significant mark variations.</li> </ul> <p>In addition, Markit PortRec is the only reconciliation service directly integrated with Markit Portfolio Valuations to satisfy auditor and regulatory requirements with an independent source of valuations.</p>