

October 4, 2005

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

Dear Mr. Geithner:

Following the September 15 meeting, we are pleased to update you on our collective progress and next steps toward improving Credit Derivatives industry practices and confirmation backlogs. The fourteen industry participants present at that meeting (the “Major Dealers”) have since met regularly, formed working groups, and have made significant progress on outstanding issues, including:

- Development of metrics to measure industry progress
- Implementation of a guide to support the ISDA Novation Protocol
- Establishment of target dates and levels by which to reduce confirmation backlogs
- Plan for industry usage of DTCC confirmation and settlement functionality
- Plan for improvement of CDS settlement process

Development of Metrics to Measure Industry Progress

The Major Dealers commit to providing monthly metrics that will enable our supervisors to measure our progress, and that we will use internally. Provided data will include trade volumes, confirmations, settlements and fails, and will be made available 10 business days after each month-end.

Implementation of a Guide to Support the ISDA Novation Protocol

The Major Dealers are actively working to finalize the Guide that will support the implementation of the ISDA 2005 Novation Protocol. The Guide describes the process to ensure all novations have written evidence of consent received by close of business on the novation trade date. The Major Dealers will not accept any novation unless the transferor has signed and adhered to the Protocol or they receive prior written consent from the Remaining Party before firm pricing is given, as per the terms of the ISDA Master Agreement. The effective date for implementation is October 24, 2005. Highlights of the Guide include:

- Obligation of the transferor to obtain written consent from the Remaining Party on novation trade date
- Process for notification and method of communication

To accommodate cross-border concerns, the Major Dealers propose to designate a 6:00 p.m. Eastern Time consent cut-off deadline under the ISDA 2005 Novation Protocol.

Establishment of Target Dates and Levels by which to Reduce Confirmation Backlogs

The Major Dealers commit that by January 31, 2006, we will each reduce our number of confirmations outstanding more than 30 days by 30% from our number of confirmations outstanding more than 30 days as of September 30, 2005. This target covers the total of all written and electronic confirmations, to any trading partner (customer or dealer), and to all credit derivative products, whether DTCC-eligible or not. We believe this target is an aggressive commitment to substantially reduce our outstanding confirmations. Additionally, the use of economic trade verifications at the time of the trade represents a significant risk mitigant as we continue to work through our confirmation backlogs.

The Major Dealers commit to set a further aggressive target for March 31, 2006. We will finalize this target by December 15, 2005, when we expect to have substantial knowledge of the impacts of automation advances, lock-ins, and the Novation Protocol. Anything less than significant progress on our backlogs over and above our January 31, 2006 goals will be unacceptable.

Our supervisors will be able to monitor our progress toward these reductions on a monthly basis, using the proposed metrics discussed above. A copy of the draft metrics is attached to this letter.

We also agreed on operational tools to facilitate these reductions:

- Full use of all DTCC capabilities by the major dealers by October 31, 2005, as discussed below
- Procedures and rotation schedule for lock-ins have been published by a working group.

The Major Dealers are committed to moving the industry over time to a T+5 standard for vanilla confirmations. The work that we are doing to dramatically increase utilization of automated matching through DTCC and to change the current market practices on novations will lay the foundation for moving to that standard, which will be met through high levels of automated processing. Additionally, the Major Dealers are working aggressively to reduce the time it takes to confirm trades that can not be electronically confirmed using DTCC. We will convene by January to frame a more specific approach to meeting these goals.

The Major Dealers have or intend to put in place policies and procedures for appropriate internal management and reporting to achieve the backlog reduction targets, and we stand ready to discuss these procedures with our supervisors.

Plan for Industry Usage of DTCC Confirmation and Settlement Functionality

All Major Dealers are signed up with DTCC and commit to fully using its existing functionality by October 31, 2005. Industry momentum for using DTCC functionality is already driving significant improvements; many Major Dealers saw dramatically fewer breaks and higher matches in their most recent quarterly cash roll, largely due to the DTCC process.

The Major Dealers will require all active clients to subscribe to industry-accepted electronic matching platforms, including at least DTCC, and be fully using its existing functionality by January 15, 2006. We reserve the right to support future platforms as well. Active clients are

defined as those executing five DTCC-eligible trades a week or more on average over the past three months with an individual dealer. By March 31, 2006, any client trading on average one time per week or more over the prior three months with an individual dealer in DTCC-eligible products needs to be signed up with and fully using DTCC existing functionality. We will continue to encourage all clients to sign up with DTCC.

Plan for Improvement of CDS Settlement Process

- Adjustment of market index master contracts for cash settlement:
The Major Dealers worked with ISDA to complete the 2005 Delta & Northwest CDS Index Protocol following the recent bankruptcy filings by Northwest and Delta, and a list of adherents to the protocol has been finalized. This protocol was a further refinement of the protocol developed following the Collins & Aikman bankruptcy. The dealers and ISDA will continue to collect feedback on the auction process, and a working group will continue to refine the cash settlement process for integration into the master confirmations for North American index contracts prior to the next index roll, which is scheduled for March 2006. The working group intends to complete this task by December 31, 2005. In addition, the protocol approach can be readily adapted in the event of any credit events in the interim.
- Active use of the industry tear-up process to reduce our open trades in distressed names:
There is an industry tear-up currently scheduled for October 7. Tear-ups will help to reduce both confirmations outstanding and the total notional size of single name trades in distressed names in advance of potential defaults.

The commitments within this letter are made on the basis of the current state of affairs in the credit derivatives market. One or more major credit events affecting large volumes of contracts could significantly impact our ability to meet the described deadlines.

If you would like to discuss our progress in more detail, we would be pleased to arrange a meeting.

Yours Sincerely from the Senior Managements of:

Bank of America, N.A.
Barclays Capital
Bear, Stearns & Co.
Citigroup
Credit Suisse First Boston
Deutsche Bank AG
Goldman, Sachs & Co.
HSBC Group
JP Morgan Chase
Lehman Brothers
Merrill Lynch & Co.
Morgan Stanley
UBS AG
Wachovia Bank, N.A.