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Hearing on
"OTC Derivatives Reform and Addressing Systemic Risk"

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Chairman Lincoln, Ranking Member Chambliss and Members of the Committee, my name is Peter Axilrod, managing director of the Depository Trust & Clearing Corporation (DTCC) and former manager of Risk Management at the firm. I'd like to thank you for the opportunity to share our views with you as you consider legislation addressing over-the-counter derivatives markets to mitigate systemic risk in light of the lessons learned during the past year's financial crisis.

Summary

We share your goals of ensuring more transparent markets for regulators, who must oversee market stability and mitigate systemic risk, while protecting the public and ensuring that innovation and risk mitigation that are trademarks of the OTC business continue to exist. We very much appreciate the Committee's decision to take a fresh look across-the-board at the approach taken towards these issues to date, and will respond by suggesting one important refinement to the Administration's initial proposal.

We ask the Committee to reinforce the role of a central repository as a matter of public policy, instead of moving forward with an approach which would fragment that responsibility and create the risk of inadequate oversight of derivatives markets at times of crisis. There should be one central repository per asset class globally (that is, one for credit derivatives, one for rates derivatives, one for equity derivatives, and so on) to which all other potential central reporting entities, such as central counterparties, should also report their positions. Each such repository should function as a utility that would serve the market in a non-discriminatory manner, be neutral and independent, and make its data fully available to regulators, with aggregate data released publicly.

Need to Refine Initial Administration Proposal

DTCC supports the broad goals of the Administration's approach to addressing systemic risk. We also share the assessment that meaningful transparency to regulators and the public at large requires that all OTC derivatives either be cleared through a regulated central counterparty or else registered in a regulated repository. But in the area of trade reporting, we believe further refinement is needed to assure that potentially serious unintended consequences are avoided.

Unfortunately, the Administration has proposed a system which, if implemented, would result in regulators receiving reports on OTC derivative trades and positions from multiple information providers. In the case of cleared trades, the information would come from multiple clearinghouses. In the case of uncleared trades, the information would come from multiple trade repositories.

Such a system, involving multiple sets of information coming from multiple providers, will not serve the information needs of regulators or the markets, especially at times of stress, because it would tend to obscure rather than expose risk. This problem would be especially acute at the time that comprehensive and timely information would be needed most, in cases of unusual market pressures such as we saw last fall with the collapse of Lehman Brothers.

DTCC has not taken a position on which trades in the OTC derivatives markets need to be cleared. But we are certain about one thing: whether cleared or uncleared, for the safety and soundness of all market participants and the public, all market participants need to report trades to a central repository that will make that information immediately available in a comprehensive manner to regulators and the general public.

The proposal of a system of relying on five or six clearinghouses for cleared trades and multiple trade repositories for non-cleared trades reporting independently to regulators risks fragmenting that information, preventing any single entity from having an overview of the entire market that it can provide regulators and the general public, and thereby undermining the transparency of derivatives positions. Such fragmentation can significantly increase systemic risk, particularly during times of stress, by (1) impeding the ability of regulators to protect investors and the integrity of the financial services system as a whole and (2) increasing uncertainty and thus instability in the markets. For this reason, the approach initially proposed by the Administration actually represents a step backward that would unintentionally reduce the level of transparency that now exists in the OTC markets.

By contrast, the core policy goals are advanced when information on trades is held on a centralized basis, with the consolidation of the market information facilitating rapid disclosures and enabling regulators to address market risks. This is best done through a centralized, consolidated trade repository per asset class.

The reasons for consolidation of such information should be especially clear to this Committee, with its history of jurisdiction over the CFTC. With responsibility for different categories of financial instruments bifurcated between the SEC and CFTC, there is the potential for gaps in information, delays in reporting, or inefficiencies in sending data from one regulatory body to another. As a result, in the absence of a consolidated trade repository – especially one that is unbiased and indifferent as to how the trade is executed or whether or how it is cleared -- would be difficult for regulators and the public to see a comprehensive view of market activity, impairing the kind of view that a single trade repository is able to give regulators. In addition, there is the potential for a firm to mask transparency by hiding a large and systemically dangerous trade from regulators by spreading it out across several clearinghouses. By the time the regulatory authorities are able to connect the dots, the entire financial system could be at risk. This scenario underscores the critical need for a consolidated, comprehensive single entity that collects and maintains the underlying position data and makes it available to regulators in the most efficient, timely and usable manner.

Sufficient experience in these activities should be required to ensure that a central swap repository per asset class is able to carry forth its role successfully and protect the integrity of over-the-counter markets. And, to protect its independence, it should be prohibited from being owned by any exchange, single market participant or small group of market participants.

With that introduction, I would like to provide you more background on DTCC, our history and structure, our services to the market as well as our work with regulators.

What is DTCC?

DTCC is unique entity serving the financial markets, regulators, and the public. We are a market-neutral, member-owned cooperative and governed organization, which has been the primary infrastructure organization serving the capital markets in the U.S. We are regulated by the SEC, the Federal Reserve Board of Governors and the New York State Banking Department. We have a 36 year history of bringing safety, soundness, risk mitigation and transparency to our financial markets.

DTCC, throughout its history, has played a central role in helping our financial markets during a period of crisis. Our subsidiaries, The Depository Trust Company (DTC) and National Securities Clearing Corporation (NSCC), were created in the 1970s to help address the famous paperwork crisis on Wall Street, when thousands of messengers carried bags of stock certificates and checks to settle trades and recordkeeping strains forced the New York Stock Exchange to shut down on Wednesdays to process the backlog of trade records. During this period the NYSE traded an average of 15 million shares daily. Today, DTCC supports more than 50+ equity markets, including the NYSE, NASDAQ, ECNs and ATSs, and we have processed as many as 19.3 billion shares traded in a single day. In the mid-1980s, we implemented similar protections for the U.S. Treasury markets, providing automation and processing safeguards to protect the certainty and attractiveness of trading in U.S. Government securities. In the late 1980s, we removed the barriers preventing the growth in sales of mutual funds, providing U.S. investors with unprecedented choice and low cost.

At its core, DTCC is a huge data processing and risk management business, involving the safe transfer of securities ownership and settlement of trillions of dollars in trade obligations, under tight deadlines every day. At the same time, DTCC's primary mission is to protect and mitigate risk for its members and to safeguard the integrity of the U.S. financial system. Mitigating risk means we not only have the capacity to handle unpredictable spikes in trading volume, but that we have the business continuity and resiliency to withstand both the "unthinkable" –and even the "unknowable."

The general public may not have heard of DTCC before. That's probably not an accident. We have traditionally kept a low profile, given the critical nature of the essential infrastructure role we play in U.S. financial markets. Last year DTCC settled \$1.88 quadrillion in securities transactions across multiple asset classes. We essentially turn over the equivalent of the U.S. gross domestic product (GDP) every three days.

DTCC, through its subsidiaries, provides clearing, settlement and information services for virtually all equities, corporate and municipal bonds, U.S. government securities, mortgage-backed securities, commercial paper and other money market instruments traded in the U.S., as well as serving as the central repository and central life-cycle event processing facility for the global CDS market. In addition, DTCC has supported the enormous growth and consumer choice in the purchase of mutual funds and annuity transactions, linking funds and carriers with the firms who market these products. Today, DTCC's central securities depository is the largest securities depository in the world, providing custody and asset servicing for 3.5 million securities issues from the United States and 110 other countries and territories valued at \$30 trillion.

As global financial markets went through crisis last year, DTCC's record-keeping, transparency and risk mitigation systems helped federal regulators identify the true exposure of major market participants, and afforded regulators the ability to make informed decisions about to how to work through that exposure and how best to protect the public.

As an example, following the Lehman bankruptcy last year, DTCC clearance and settlement systems played a significant role in unwinding over \$500 billion in open trading positions in equities, mortgage-backed and U.S. government securities, without any loss to the industry—and avoiding any burden on taxpayers. This past week, we have worked to ensure that positions relating to the Credit Default Swap ("CDS") market relating to Dubai are visible and transparent, thereby facilitating the ability of regulators to understand market positions of major players and thereby properly to assess risks. We also note that gross and net global exposure to Dubai in the CDS markets is among the comprehensive information on the global CDS markets published on our website, thus helping to preserve market stability that might otherwise not exist had such exposures been unknown or there was some question around the reliability of their reporting.

Bringing Automation and Efficiency to OTC Derivatives

By 2003, the market for OTC credit derivatives had taken off, but none of the trades were being confirmed electronically. The confirmation process was manual and error-prone. Both the global dealers and regulators felt the market for these instruments faced growing risks, if a solution was not found. DTCC was asked by the dealers to develop and we delivered within nine months, an automated matching and confirmation system, called Deriv/SERV.

As major dealers make ambitious commitments to global regulators about improving their operational practices, DTCC's collaboration with the industry has continued to bring a wider universe of the OTC derivatives market on to its electronic matching and confirmation platform (now part of a joint venture – called MarkitSERV – with another electronic matching and confirmation platform), which has helped to significantly reduce the level of unconfirmed trades that remain in the market. These services have been provided at-cost to global dealers or sell-side firms and at no charge to buy-side customers.

Trade Information Warehouse

After entering the OTC derivatives space, it was clear to DTCC and market participants that the downstream process for CDS was another major area of concern. Once CDS trades were completed, these contracts could be resold or reassigned multiple times over their five-year lifecycle, but the processes for recordkeeping and reconciling these transactions, and processing life-cycle events such as credit events, were decentralized, and largely manual.

Working with market participants DTCC launched its central repository known as the Trade Information Warehouse ("Warehouse") in November 2006, to provide an automated central repository to house and service all CDS contracts globally. During 2007, DTCC back-loaded physical records in the Warehouse with information on over 2.2 million outstanding CDS contracts. Today, over 95% of all OTC credit derivatives are captured in this automated environment and matched by MarkitSERV, which is now supplying the Warehouse with more than 41,000 transactions daily. Today, the Warehouse is the only comprehensive global database or repository for any asset class of OTC derivatives anywhere in the world.

I'd submit to you, Madam Chairman, and Members of the Committee, that had DTCC and the industry not had the foresight to create this Trade Information Warehouse and load the Warehouse with all these records of CDS trades in 2007, we might still be sitting here today in 2009 trying to sort out the total exposure of trading obligations following the Lehman bankruptcy. Such basic questions as who traded with whom, when the trades were made, and what the price was for each trade would not have been readily answered, without having to first piece together information from disparate, non-standardized sources.

Evolution of the Trade Repository During the Crisis

In the course of the 2008 market crisis, the Warehouse was further developed by regulators globally and market participants to serve multiple, essential functions for the market. These included:

(1) Acting as a source of market transparency for the global markets, including both weekly publications of aggregate information relating to the global CDS market, as well as providing specifically requested information to Federal Reserve Bank of New York, the European Central Bank and the Financial Services Authority in London among others in support of their regulatory missions;

(2) Providing a single point to efficiently implement changes to the CDS credit event process, enabling prompt information process changes in response to regulatory concerns; and

3) Functioning as a neutral and independent infrastructure support for CCPs, providing them with open and non-discriminatory access to CDS information and life-cycle event processing.

Regulatory Status of Trade Repository – Domestic and Global

During the crisis, DTCC understood that the Warehouse had a global function, given the cross-border nature of the credit derivatives markets. As last year's crisis played out, DTCC believed it important to support regulators on both sides of the Atlantic that was exhibited during and after the crisis. Our longstanding commitment to business continuity planning and back-ups, where DTCC is multiply redundant, made it so that regardless of the nature of a crisis, we would be well-situated to carry out our function for markets and for regulators under any imaginable stress.

We also decided to establish a limited purpose trust company that would be a NY State Member Bank of the Federal Reserve System. Currently, this leaves the Warehouse subject to the direct jurisdiction of the Federal Reserve, the SEC, and the New York State Banking Department.

The bottom line on this is that we believe that any trade repository – including ours – should be regulated.

At this point, regulators worldwide are working with the Federal Reserve to ensure that relevant regulators throughout the world will be brought into a cooperative and shared regulatory structure ensuring appropriate access to data by all regulators and representing all interested regulators' oversight interests relating to the safety and soundness of the infrastructure.

The ultimate structure of regulatory oversight worldwide over DTCC's trade repository functions is still the subject of ongoing discussions, but all regulators have seen the advantages of a single global source of data, and have been very pleased with DTCC's responsiveness. For this reason, we believe it may well be that international jurisdictional concerns will give way to the advantages of seeing risks globally from a central vantage point, avoiding fragmentation of the data that is so critical to managing systemic risk.

Need for Integrated Data on Derivatives Through a Unified Repository

This experience leads me to emphasize one fundamental policy point. Repositories for trade information need to be unified, consolidated, and integrated by asset class, to make it possible for regulators to protect investors and the integrity of the financial services system as a whole and to assure accurate aggregate public reporting of exposures. These core policy goals are advanced when information on trades is held on a centralized basis.

We believe maintaining an integrated trade repository for OTC derivatives contracts by asset class is an essential element of safety and soundness for two primary reasons. First, as explained below, it is the only practical way to provide accurate and timely public information around aggregate exposure to particular issuers or asset classes. Second, as a practical matter, it provides the ability, from a central vantage point, to timely identify the exposures of trading parties that are growing too large or dangerous and to speed the resolution of these positions whether or not in the context of a firm insolvency.

Fragmentation of Information the Result of Initial Administration Proposal

DTCC supports the role of central counterparties (CCPs) in OTC derivative trading to provide trade guarantees. But CCPs do not obviate the need to retain the full details on the underlying trading positions in a central trade repository to support regulatory oversight and transparency in this market. As an organization that provides CCP services in other markets, such as equities and government securities, DTCC understands and recognizes the value a CCP can bring to the derivatives markets. In fact, our Warehouse will support all CCP services in the U.S. and overseas on a non-discriminatory basis. Entities functioning as CCPs in the CDS market currently submit their trade data to DTCC, and we include it in our reporting to regulators.

At the same time, we are concerned that some in the OTC derivatives market may assume once a trade guarantee is provided through a CCP, there may be less need for a central repository to track the underlying position data. We reject this view, based on our long experience managing the risk flowing from the failure of a single member firm. To protect the safety and soundness of markets it is important that regulators have timely information as to market-wide exposure of the major market participants, which would help avoid bailouts of systemically important firms. In addition, the public at large would reap the benefits of timely information as to aggregate exposures to particular issuers or asset classes, which would help preserve market stability in times of stress. Both of these could be lost if the Administration's initial proposal were adopted without refinement.

Today, our Warehouse connects and services some 1,600 global dealers, asset managers, and other market participants, providing a central operational infrastructure covering approximately 95% of all current credit derivatives traded worldwide. Unfortunately, the approach initially proposed by the Administration would put at risk this comprehensive source of information that is now in place, which currently serves U.S. and international regulators as well as the public at large. We, therefore, strongly recommend that the Committee ensure that all swap trades, regardless of whether they are cleared or not, be reported to a single swap repository, which exists to provide regulators and the public with the consolidated information they need during normal times, and, especially, at times of crisis.

Unfortunately, by **not** requiring all swap documentation and trade information to be reported to a single, comprehensive repository per asset class, the Administration's initial proposal would have the effect of denying regulators the opportunity to see systemic risk from a central vantage point, because it would fragment the existing information on CDS contracts stored in the Warehouse. In other words, it would be significantly more difficult to create a comprehensive source of information for regulators and the public for all other classes of OTC derivatives.

The initial Administration proposal tabled this summer would authorize two different mechanisms for the collection of information on OTC derivative contracts – either a derivatives clearing organization, or a trade repository. Under this proposal, the trade repository would only be required for derivative contracts that were not accepted for clearing by a derivatives clearing organization. While it may be contemplated here that the proposal would encourage multiple trade repositories, the real effect is to create multiple sources of different information for OTC derivatives, making it more difficult for regulators and the public to see a comprehensive view of market activity.

The result of this approach to repositories would mean that information on derivatives contracts could be split up among a number of different clearing organizations, as well as one or more trade repositories. For public policy reasons, this is very undesirable. The fragmentation of information would create grave inefficiencies and delays at times of crisis, impairing the kind of view that DTCC was able to give regulators in the minutes and hours after the Lehman Brothers collapse.

One particular risk that would be newly created by fragmentation of information across multiple clearing organizations and trade organizations is that it would present an opportunity that could be exploited by a market participant who wishes to hide a large, systematically risky position. Such a participant could split his position across these clearinghouses and trade repositories in an effort to use the fragmentation, inefficiency, and delay to hide the size and risk of his aggregate position.

A second, equally important concern is the risk that multiple reporting vehicles, whether they are central counterparties or repositories or some combination, will almost certainly provide misleading initial public reporting of aggregate exposures to particular underlying issuers or asset classes. This is primarily because the calculation of true net exposures requires analysis of counterparty specific positions which may be distributed across many different reporting entities. This would likely be exacerbated in a multiple reporting entity environment by positions either being double counted due to uncertainty around the appropriate reporting entity or slipping through the cracks in the complicated aggregation and determination process.

Examples of Unintended Consequences and Risks of Initial Administration Proposal

DTCC, like many other market participants, are in the process analyzing the potential unintended consequences of a multiple repository system applied to any class of derivatives. However, at least in the global credit derivatives market, where a single global central repository already exists and provides a significant aggregate market information to the public and counterparty specific information to relevant regulators, it is clear that much could be lost under the currently proposed structure.

The first potential loss is in the area of public transparency of the market. There we note that the current global central repository, operated by DTCC as a not-for-profit utility, was able to exert a calming effect on markets during the Lehman insolvency by publishing the maximum net exposure to Lehman in the global credit default swap market as approximately $6 billion, which turned out in actuality to be about $5.2 billion. This was in contrast to the approximately $400 billion of exposure that was initially speculated. The initial Administration proposal contemplates an infrastructure where records of credit default swaps may be separately maintained in multiple CCPs and regulated repositories on a disaggregated basis. If such a system were in place at the time of the Lehman insolvency, we assess that the aggregate exposure to Lehman in the credit default swap market could have been publicly, and inaccurately, reported to be as high as $72 billion depending on the distribution of transactions among reporting entities. And, this ignores any effects of potential double counting or inadvertent omissions based on double reporting by market participants or uncertainty by market participants over where a particular trade has been reported. Having such an inaccurate report on CDS exposures – off by an order of magnitude -- would not have been an acceptable outcome.

In response to Lehman insolvency, DTCC began publishing, without charge, significant market information on a weekly basis, including gross and net outstanding interest and turnover information with respect to the top 1,000 underlying credits traded worldwide. For example, our website as of November 30 provided the general public data showing a net CDS exposure to the Government of Dubai and DP World as less than $620 million in the aggregate. Again, disaggregated reporting by multiple reporting entities could have inaccurately indicated aggregate net exposures as high as $6.5 billion, depending on the distribution of transactions among those entities.

Current reporting to the CDS Warehouse is voluntary. We estimate that nearly all CDS trades are now reported, with exceptions due to client secrecy laws in some jurisdictions, but this wasn't always the case. In particular, while we had been reporting counterparty specific positions to regulators at the time of the AIG insolvency, virtually none of the AIG trades creating the exposure that lead to the company's downfall were registered in our Warehouse. A universal reporting mandate would have fixed that problem, but without a single central repository maintaining all positions, the AIG positions could have been maintained in multiple CCPs and repositories, masking the undue concentration until too late.

We think it is simply too risky to attempt to manage undue concentration risk for systemically important firms through multiple regulators taking information from multiple trade maintenance facilities and attempting to aggregate the information themselves. All well intended, but the potential for something slipping through the cracks or not being noticed until it is too late is just too high, and in this case we are playing with taxpayer money.

Evaluating the Effectiveness of Fragmented vs. Unified Trade Repositories

So, how can a single data source help avoid systemic risk in practice? A key instigator of a bailout scenario is when a systemically important company becomes over-exposed to a particular issuer, industry sector or asset class and a serious event adversely affects that issuer, sector or asset class. The problem for regulators concerned with systemic risk is how to identify and react to that over-exposure before the event hits the relevant issuer, sector or asset class (at which point liquidations would take place in a falling market, exacerbating the problem and threatening the financial viability of the firm).

The legislative proposal initially suggested by the Administration provides a theoretical way of doing this. It proposed that all OTC derivatives trades would have to be cleared through a CCP or registered in a central repository somewhere, in the U.S. or in other countries. As a result, in theory, each interested regulator, regardless of its location in any of the more than 180 countries and territories in the world, would have jurisdiction over whatever trade repository is located in its territory, or is mandated to cover trades in its territory. Each national or local regulator would have the authority to demand relevant position and turnover information from such repositories. Each such regulator would then amalgamate the information and set up its own concentration tests and so forth, and then enter into agreements with other regulators for disclosures and pathways for sharing the data. Even assuming that all of the world's regulators were equally functional and capable, this fragmented, bureaucratic, many-nation, many regulators, multilateral approach would not seem to be very practical.

By contrast, we have a regulated apparatus today that could, if requested by regulators, fill that role, the DTCC Warehouse, or unified repositories generally. The question really is whether it makes sense to undo this existing infrastructure, to leave it to market forces, or to give it a statutory basis to preserve it and strengthen it.

Who Owns the Trade? - The Risks of Global Fragmentation

Another concern, relating to the narrower issue of having multiple repositories, is the risk of duplication and double-counting of data, on the one hand, or missing data on the other, for national regulators, arising out of uncertainties as to the location of trade information.

Take, for example, a situation where a U.S. firm executes a CDS contract with a European firm on an underlying asset in Asia. Where should that contract be stored? There are no rules for dealing with this issue needed today for a U.S. firm, as DTCC covers the entire market. This would change as soon as there were multiple repositories.

For example, if you go by parties to the trade, the contract would need to be placed in both the U.S. and European repositories. However, under that scenario, the contract would be duplicated, and therefore double counted in reporting to the public and regulators. Because there's no common identification system for derivatives, regulators, the public and the industry would not necessarily know that the U.S. repository listing and European listing of the trade are, in fact, the same. And if the U.S. firm at some point decided to assign the trade to a European firm, it would simply drop out of the U.S. repository – and there would be no audit trail on the contract.

Likewise, if the storage of trades in a repository is based on the underlying asset, then the above trade would be held only in the Asian repository. As a result, neither U.S. nor European regulators would have regulatory authority over the data even though the risk of the contract is assumed by parties under their jurisdiction. The systemic risk regulators in each region would have only a partial and incomplete view of the market.

This result is further highlighted when one considers turnover information and not just position data. DTCC is today able to provide the total turnover of each relevant market participant in an asset class, information that helps regulators understand the role and type of activities of the participant in the market over time. This information, too, would be disaggregated by the proposals, and become at risk of being difficult or impossible to retrieve in real time for regulators.

A Better Alternative – Unified Reporting in a Trade Repository

DTCC urges this Committee to consider including in any final legislation a requirement that all derivatives traded by U.S. financial institutions be reported to a single trade repository for each asset class, which would serve regulators as a comprehensive source of information. The derivatives CCPs, which are organized as derivatives clearing organizations, would continue to retain the data from the trades that they clear. This would allow them to capture whatever commercial value they desire from that market data. However, from a broader public policy perspective and in the interests of ensuring the stability and transparency of financial markets, there must be a consolidated, comprehensive single entity that collects and maintains the underlying position data and makes it available to regulators in the most efficient, timely and usable manner.

Based on our long experience managing the risk flowing from the failure of a single market participant, we have found that knowing the underlying position data of multiple transactions across asset classes in a timely manner is significant in providing transparency to regulators—and in protecting confidence in the market itself.

DTCC also suggests that any final legislation include a few basic principles guiding how a trade repository should function as follows:

1. Any trade repository should function as a utility that would serve the market in a non-discriminatory manner.
2. Any trade repository should be neutral and independent. To protect its independence, it should be prohibited from being owned by any single market participant or small group of market participants.
3. The data collected by the repository should be fully available to regulators, with aggregate data released publicly.
4. Sufficient experience in these activities should be required to ensure that a repository is able to carry forth its role successfully and protect the integrity of over-the-counter markets.

Further Background on DTCC - Operating During Crises

One major challenge to our resiliency was after the attacks on the U.S. on September 11, 2001. Our headquarters were just 10 blocks from the World Trade Center. While the stock exchanges did not open, DTCC still had a job to do and never missed a beat. Despite the chaos that Tuesday morning, nearly 400 employees remained at DTCC 's headquarters, even though lower Manhattan was sealed off by the government, to complete that day's settlement of more than $280 billion in outstanding trades from the prior Friday and Monday. Throughout that week, working from backup facilities, DTCC completed settlement of nearly $1.8 trillion in trades that were in the "pipeline", which was a critical step to allowing our capital markets to open the following Monday.

The crisis following the Lehman bankruptcy was equally challenging. Because of our ability to manage risk and see exposure from a central vantage point across asset classes, DTCC was able to help market participants and regulators ensure that market risk and systemic risk were controlled. DTCC successfully closed out over a half trillion dollars in exposure from Lehman's trading in equities, mortgage-backed and U.S. government securities. Most would agree this was the largest and most complex wind-down in history. With nearly 36 years of experience in managing risk events, we were able to complete this wind down in a matter of a weeks with no impact to our own company's balance sheets, loss to our market participants' clearing fund deposits—or additional exposure to taxpayers. These are just two examples of the comprehensive and critical roles DTCC has played in maintaining stability for our capital markets.

Managing Multiple Credit Events from a Central Vantage Point

Our Warehouse for OTC credit derivatives likewise does more than simply maintain comprehensive records on CDS transactions. The Warehouse also handles the calculation, netting, and central settlement of payment obligations between counterparties, and it has automated the processing of "credit events" – situations where the protection against default provided by a credit default swap is activated.

During 2008 and 2009, DTCC has seamlessly processed through the Warehouse, more than 45 credit events, including the Lehman Brothers and Washington Mutual bankruptcies, as well as the conservatorships for Freddie Mac and Fannie Mae. No one could have foreseen the storm of credit events that shook the market during this period, but thanks to the central infrastructure we built for the CDS market and our ability to see and manage these credit events from a central vantage point, we were able to ensure a more seamless and safe final disposition of hundreds of billions of dollars in CDS payouts triggered by these bankruptcies and government takeovers.

If I may cite the March 9, 2009 report, prepared by the Senior Supervisors Group, which comprises the senior financial regulatory supervisors from seven major countries, including Germany, France, UK, Swiss, Japan and the U.S.:

> DTCC's credit event processing service enabled firms to manage the large number of affected CDS trades during the recent events. All surveyed participants indicated that without the DTCC service and the [Trade Information Warehouse], the process would have been manual and burdensome and they could not have completed timely processing.[1]

Having all CDS trade information in one centralized infrastructure was highlighted in the report as making it easier for market participants to identify affected trades and facilitate handling of various lifecycle events, such as settlement and credit event processing. In the midst of the crisis, the process of having to glean and coordinate the necessary information from more than one repository would have been a frightening prospect.

Enhancing Transparency

As the only source of key data on the CDS market, DTCC recognizes and supports the public policy goal of promoting transparency in the OTC markets.

DTCC has been working closely with market participants and regulators to achieve that vision. Since November 2008, DTCC has been publishing weekly on its website, key statistics and data from the Warehouse on the size and turnover of the CDS market.

Perhaps the clearest example of the impact of DTCC having its broad vantage-point over the CDS market was exhibited in the Lehman Brothers bankruptcy last year. At the time of the Lehman crisis, rampant speculation valued the market's CDS risk exposure from the bankruptcy to be as high at $400 billion, causing unease and a sense of panic in some quarters. Since DTCC held the vast portion of information on CDS positions in our Warehouse, we took the unprecedented step to issue a press release on a Saturday in mid-October to clarify the numbers. We reported that based on our Warehouse records, the exposure to Lehman was closer to a net notional value of about $6 billion. Ultimately, at the close of this credit event, $5.2 billion changed hands between counterparties.

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[1] Senior Supervisors Group, "Observations on Management of Recent Credit Default Swap Credit Events," March 9, 2009http://www.sec.gov/news/press/2009/report030909.pdf.

Over the summer, we issued a similar press release following the GM bankruptcy, reportedly the largest for an industrial company in U.S. history, surpassed only in dollar value by the Lehman bankruptcy CDS numbers.

In the June 8 *New York Times'* Breaking Views column, the Warehouse was praised for bringing greater transparency on CDS exposure following the GM bankruptcy:

> The vague guesses of four years ago have been replaced by hard data. The Depository Trust & Clearing Corporation, which now collects trading information, was able to say last week that the $35.3 billion in outstanding swaps trades on GM netted down to possible payments between market participants of an unremarkable $2.2 billion.[2]

Today, when credit events occur, having this data more readily accessible to the public through our weekly postings has helped demystify CDS instruments somewhat and help avoid the market anxiety that was so pervasive during the Lehman crisis.

Working with Global Regulators

The marketplace for OTC derivatives is truly global in nature, which means that to be most effective any trade repository needs to serve market participants and regulators on a global basis. When we originally designed the Warehouse with market participants, we spent a long time making sure there would be no duplication of data and that the transfer of information happens when it is supposed to. None of those control mechanisms would work very well in a context where there is more than one Warehouse. Additionally, every regulator in the world, if it was seeking to ensure the soundness of firms under its purview, would need access to *all* global central repositories in order to effectively supervise the risks firms were taking. The risks associated with the market for OTC derivatives will not be easily managed, if you can not see the positions globally. To this end, we regularly provide information to regulators worldwide in support of their own regulatory missions, including the European Central Bank and the Financial Services Authority in the U.K.

International regulators have demonstrated their own commitment to increasing cooperation on a global basis with the announcement this November that they have established a new OTC Derivatives Regulators' Forum, a group comprised of central banks, market regulators, government bodies and others that have jurisdiction over OTC derivatives market infrastructure providers or OTC derivatives market participants.

[2] "A Swap Disaster That Wasn't One," June 7, 2009, New York Times, http://www.nytimes.com/2009/06/08/business/08views.html.

The Forum will be charged with developing a global framework for regulatory cooperation and to share ideas and information on CCPs and trade repositories serving the OTC derivatives market. DTCC supports this effort because we recognize that in the OTC derivatives market, there needs to be a global solution with a regional approach versus a regional approach that doesn't provide a global perspective. In other words, a global marketplace demands a coherent set of regulations that apply on a global basis.

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DTCC stands ready to work with the Congress, Administration, global regulators and market participants to help accomplish our shared vision of greater transparency, risk mitigation and resiliency in this dynamic market. Thank you.

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