

PREPARING FOR CREDIT NOVATION CONSENT = CONFIRMATION WEBINAR: JULY 20-22, 2010 Participant Q&A

Q1. Please detail what will be eligible for C=C again.

A1. Consent = Confirm refers to the new process around taking trades that are electronically confirmed in DSMatch and allowing the novation consent platforms to initiate the confirmation when certain criteria or eligibility are met:

- Trades must be confirmed and certain with the DTCC Trade Information warehouse (TIW)
- No pending exits or amends on the requested trade
- Trade must be confirmable under either STS or Matrix terms
- RP and EE must be part of the Fed 14

Q2. Is the MarkitSERV module something that needs to be loaded to your desktop? We currently do consent and confirmation within NCM and DSMatch.

A2. There are two-options:

- Use the Web-based GUI for access to MarkitSERV
- Connect via the API and communicate via your own proprietary systems

Q3. Are upfront payments considered post-trade events?

A3. Upfront payments are part of the original transaction and they are part of the post-trade events, that once confirmed are due for settlement. They are part of the C=C process and are a matching field.

Q4. Is MarkitSERV a partner or competitor to Deriv/SERV?

A4. MarkitSERV is a joint venture between Deriv/SERV and Markit Group Ltd. In September 2009 these two parent organizations formed MarkitSERV and the Novation Consent platform is part of MarkitSERV. MarkitSERV feeds transactions to the Trade Information Warehouse run by The Warehouse Trust Company, LLC which is owned by Deriv/SERV LLC.

Q5. As the OR we can pick if it's C=C or Consent Only? Or are we required to do C=C every time?

A5. The answer is no. Every trade will be considered against the C=C criteria as listed above. If eligible, all trades will go through C=C without exception. There is no choice; the eligibility is driven at the time of the trade.

Q6. Is it necessary that RP and the EE do the consent for the novation or just the RP?

A6. A novation must be agreed by all three parties in the transaction. The OR takes the initial action of novating an existing position. Both the RP and EE are required to consent to effect a legal novation.

Q7. And if it's necessary that EE accept the novation consent and we don't, what are the implications?

A7. If an EE does not take the necessary action on the pending novation, then at 5 p.m. on T + 1 the novation will expire. The trade that was executed between the OR and the EE would then become a bilateral transaction.

Q8. What is Consent Only flag?

A8. The Consent Only flag applies to a trade that is not eligible for full C=C. This means that the underlying transaction that was requested for novation request did not meet all of the criteria and as either RP or EE, you would be required to send your own message down to DSMatch for legal confirmation. Please note that as OR whether your trade is consent only or C=C, the system will be sending this message downstream on your behalf.

Q9. If the underlying is un-consented on T, will the consent still have trade date T?

A9. The original novation transaction that led to the consent request has a trade date of T. If the transaction is consented by all parties, the Novation Trade Date will be T and if un-consented by RP or EE then the bilateral trade between EE and OR will have a trade date of T. The trade date will always remain the same along with the original novation consent request date.

Q10. What happens to the trade after it has been auto-expired?

A10. The novation request will be moved to an expired tab and the OR and EE will need to book and confirm a bilateral transaction.

Q11. For the three eligible roles on NCM, if I submit to NCM via MQ message, will the statuses be added to the MQ message I receive back from the NCM?

A11. Status messages will continue to be sent via MQ as the messaging works today. We will add the additional field requirements to support C=C in the outgoing messages.

Q12. Holding all else constant, given the state of the market, will novating settle faster than terminating my CDS protection?

A12. The genesis behind C=C is that the novations process could be made faster and more efficient. The process as it is designed is to allow for new trades, terminations and assignments to process in a consistent, timely manner.

Q13. What if you currently use ICE Link/T-Zero for novations and they push it thru to DSMatch?

A13. ICE Link is part of the C=C initiative and should be advising you on any changes to your current process. ICE Link will support the C=C initiative and will message the TIW accordingly, where the original trade selected for novation meets the same C=C criteria discussed above.

Q14. Will firms know the payment amount is obligatory? Will firms "know" the payment is obligatory?

A14. The payment amount/fee associated with a novation is a matching field for the confirmation and is presented to the EE at time of Consent Request. Once the trade is consented, this fee will be presented as part of the Confirm Record to the DSMatch confirmation platform.

Q15. If the underlying is not confirmed on T, but instead on T +1, will the consent be as of T or as of T +1?

A15. The legal confirmation of the novation will be on the initial novation trade date.

Q16. We have gathered that completed NC cannot be modified. Please confirm. Also, what are editable workflow fields? (We had these questions after going through workflow doc from Markit)?

A16. Completed novation consent cannot be modified, but these transactions can be bilaterally amended post novation. In the NCM platform, the workflow fields are editable except for the E Trade ID.

Q17. Is deadline for RP novation still 3:00 p.m. (PST) on novation date?

A17. Novation Consent cut-off time means 5:00 p.m. (New York time) on the first business day immediately following the Novation Trade Date.

Q18. In the example of ref. entity GMAC INC. being renamed to ALLY FINANCIAL INC, whereby the OR and RP have originally confirmed as GMAC, and EE-RP are confirming as ALLY, what would be the resolution using Novation Consent=Confirmation? This used to take place at the warehouse level.

A18. Industry best practices are drafted around successor events and rename events such that the contract as confirmed in the TIW will be the contract that is assigned during C=C. Subsequent to the novation, the RP/EE are free to amend the transaction to the successor details.

Q19. If you cannot novate an amount greater than the remaining, why not just create a message saying so and prevent it, rather than putting it into an error queue?

A19. It is possible that there are two open post-trade events on a given TIW position that temporarily cause a new request to fail. For example, assume that a TIW position originally was confirmed with \$100M notional. This trade has a partial termination of \$40M that both sides have submitted to DSMatch but that is breaking on the fee amount. The TIW does not know that the two submissions are related and will therefore only allow a novation request of up to \$20M (100M – 40M – 40M). Once the fee issue is resolved, the TIW will accept a novation reservation of up to 60M, which will be the new notional. The decision was made to put any novation consent requests that failed the reservation amount into the error queue to simplify the reprocessing when the termination is confirmed.

Q20. What happens if RP consent but not EE - or will EE have to consent by this time to ensure the consent goes through?

A20. Both the RP and the EE need to consent by 5pm T+1 EST to effect full legal novation.

Q21. Sorry if this is a bit green, but what is the Fed14?

A21. The G14 refers to a consortium of dealers that make commitments to a group of global supervisors to make improvements to the operational efficiency of the derivatives marketplace. The original commitment process was to the Federal Reserve and the firms were referred to as the Fed"X" (there were originally more than 14 institutions). Since then, the term Fed 14 or G14 are often used interchangeably.

Q22. What happens when you have multiple novations/ terms in one day? Each term/ novation has to be confirmed before the other trade can be confirmed/ alleged? That usually never happens from my experience and what about backdated corrections, for example we change the ref entity or allocations on T+2, can we go cancel the old novation that was affirmed and re-allege a novation that is greater than T+1.

A22. If you have multiple novations on the same trade (partials), then as long as there is sufficient notional, each piece of the partial is handled separately. There will be a reservation process based off available notional and as long as the original trade has been confirmed, then the partial will flow through. Backdated corrections on trades (including allocations) that are fully confirmed must go through the cancel/disable functionality available within DSMatch.

Q23. What happens if as the transferor, we initiate an assignment. The RP consents on T+0, but the EE is late affirming the assignment (say T+2)?

A23. Both the RP and the EE have until 6 p.m. T+1 EST to affect the full legal novation, otherwise a potential deemed trade exists and the novation request is removed from the system. Confirming on T+2 is no longer an option.

Q24. Can you explain on the allegation again? Do the OE, EE and RP have to allege in ICE Link/MarkitSERV?

A24. Step-out (OR) would start the novation process within either NCM or ICE Link. Step-in (EE) would agree to the terms of the novation and Remaining Party (RP) would consent. Once there is a complete novation, then the novation platform would send all legs of the assignment to DSMatch for confirmation.

Q25. Will the process remain unchanged for ineligible trades, e.g. if EE is not member of Fed14?

A25. Non-Fed 14 members will not be eligible for C=C trades and will be processed as Consent Only. This only affects whether the novation consent platform sends the RP/EE legs to DSMatch. All other changes to the novation process will apply.

Q26. What is the minimum notional that can be novated under C=C?

A26. There is no minimum notional requirement associated with C=C. As long as there is available notional on a transaction, then it is eligible for novation.

Q27. What is reservation on notional about?

A27. The Reservation Number is a reference relating to a reservation of notional placed on a confirmed record within the TIW. This is the amount of trade notional selected to be novated. The TIW will reserve that portion of the notional until the novation is completed or removed. Think of this like a hold on a credit card until the actual charges (the confirmation) are processed.

Q28. From a buy-side perspective, for consent alleges held in error queue where TIW is not certain, i.e. same day assigns - does the RP/EE not have the option to do an interim consent? We are just concerned that if the original doesn't get confirmed we still get consent on T - or is my understanding wrong?

A28. The original trade must be fully confirmed to novate as part of the C=C process. Any novations on unconfirmed transactions will go to pending.

Q29. If you press accepted in error, when you don't agree with the details, can you correct it?

A29. Provided all three parties have not consented to the trade then it is possible to withdraw your consent. If all three parties have consented, then this function is locked and you must go through the cancel/disable process within DS Match.

Q30. What is the proposed workflow for PB-intermediated C=C trades? i.e. Client alleges novation on the IA-PB leg, whilst the actual assignment (step out) in DTCC happens on PB - EB deal?

A30. The novation consent is actioned on a trade by trade level. The PB desk for the client leg and the EB leg must take action on both trades.

Q31. Our front office uses the novation consent module. Are there any major changes to the screen design other than the new warning messages?

A31. No, the screen will largely remain the same.

Q32. Will this be considered a front-office system or due to the necessary timeliness, would the NC platform be primarily for FO use?

A32. It would be up to the individual institutions as to how they choose to support the novation process.

Q33. What will DSMatch do with un-suppressed novations messages from our systems? Reject or create duplicate?

A33. It would send a duplicate message down to the TIW for matching if the trade reference was the same. Suppressing the message is a key concept to be understood in the C=C process.

Q34. Is there a warning message to advise that one of the parties is not a Fed 14?

A34. There is no warning message. At the point on consent request, the parties will know whether the trade is not eligible for C=C by viewing the Consent Only flag. The eligibility criteria drives which trades are Consent = Confirmation eligible.

Q35. How does a four-way novation work on this platform? If both parties novate the trade to other counterparties ?

A35. Four-way novations will only work from an RP perspective for phase I of this initiative.

Q36. If a novation is submitted and validated by all three parties but after it is realized the Payment Fee is entered incorrectly, is it easy to amend this fee? If so what would be the process, if the novation has a Status and Warehouse Status of 'C'?

A36. If the two parties to the fee match incorrectly and the RP affirms thus sending the trade downstream into completed status, then you could use the fee amend functionality in DSMatch on the assignment leg.