



Take control of your OTC derivatives reconciliations and disputes

September 2010




markitSERV™

A joint service from DTCC and Markit

CONFIDENTIAL

Agenda

- MarkitSERV company overview
- Challenges in the market
- Industry overview
 - Commitments
 - Investments
 - Impact of clearing on reconciliations
- Commentary from a leading derivatives dealer
- Introduction to MarkitSERV PortRec
- Integration with other industry services: more comprehensive end-to-end solutions



MarkitSERV company overview

Tim Roach
Director, MarkitSERV Sales



markitSERV™

A joint service from DTCC and Markit

CONFIDENTIAL

About MarkitSERV

“MarkitSERV will connect buy- and sell-side communities with a single electronic gateway for trade processing across asset classes. We will help market participants meet their commitments to regulators globally to reduce operational risk and adopt clearing for the OTC derivative markets.”

Jeff Gooch, CEO

markitSERV™

MarkitSERV value proposition

- Unparalleled network of participants and services
- Across major asset classes
- Ultimate connection point



Commodities	Credit	Equity	Rates
Agriculturals	ABS	Index and Share	Asset Swaps
Base Metals	ABX	Dividend Swaps	Basis Swaps
Coal	CDS Single Name	Options	Bond Options
Freight	CMBS	Swaps	Callable Swaps
Natural Gas ²	CMBX	Variance Options	Caps and Floors
Natural Gas Liquids ²	CDX Index	Variance Swaps	Cross Currency Swaps
Oil and Refined Products	IOS	Dispersion Variance Swaps	Forward Rate Agreements
Pulp and Paper	PO	Option Strategies	Inflation Swaps
Power ²	iTraxx		Interest Rate Swaps ¹
Precious Metals ²	iTraxx SovX		OIS ¹
Pulp and Paper	LCDS		Swaptions ¹
Power ²	LCDX		Zero Coupon Swaps
Precious Metals ²	MCDX		
	PrimeX		
	RMBS		
	Tranches		
	TRX		

1 – Non-Deliverable transactions supported
2 – Physically-settled commodities supported

MarkitSERV platform overview

- MarkitSERV's electronic platform for derivative post-trade processing is the most utilized in the industry, processing more than 600,000 trades every month.
- Our services help reduce risk exposure, increase counterparty transparency and create operational efficiencies for a variety of post-trade processing activities.
- The full suite of services includes tools for trade affirmation, confirmation and portfolio reconciliation across all asset classes and transaction types.

MarkitSERV platform overview *(cont'd)*

- **MarkitWire** (formerly SwapsWire) delivers real-time legal confirmation, trade capture and STP for sell-side and buy-side firms, inter-dealer brokers (IDBs) and fund administrators, for OTC rates, equities and commodities products.
 - Includes support for all trade life-cycle events and innovative functionality to handle novations and allocations.
- **DSMatch** (formerly DTCC Deriv/SERV) automates matching and confirmation for OTC derivative products – credit, rates and equities.

MarkitSERV platform overview (*cont'd*)

- **MarkitSERV Trade Manager** offers electronic confirmation workflow tools for buy-side firms and fund administrators including STP connectivity to DSMatch and MarkitWire, “paper” confirmation workflow, novation consent, trade recap management, comprehensive reporting and metrics for all OTC derivatives.
- **MarkitSERV PortRec** is an automated OTC derivative position reconciliation and valuation comparison service.
 - PortRec (winner of Risk Awards Industry Platform of the Year 2008) offers a complete view of exposure across counterparties and asset classes.
 - PortRec automates processing, reducing operational risk/costs and manual intervention, and providing benefits to downstream processes (collateral, NAV calculation, etc).
 - PortRec provides online dispute resolution capabilities in line with the ISDA DRP...with full audit history and communication tools.
 - Full tri-party reconciliation is supported.



Challenges in the market

Devika Darbari
VP, MarkitSERV
Product Management PortRec

markitSERV™

A joint service from DTCC and Markit

CONFIDENTIAL



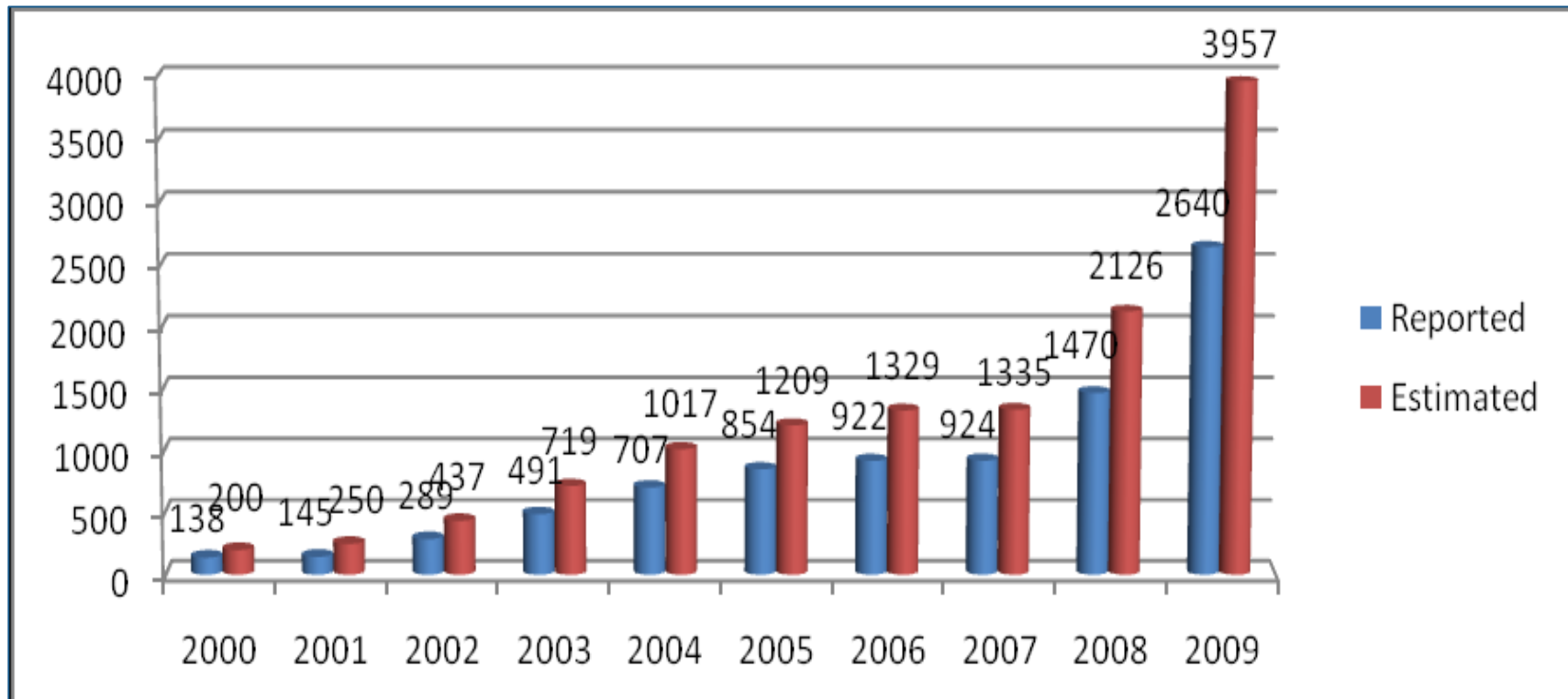
Challenges in the market

“During the recent crisis, an important issue regarding collateralization and risk management was that market convention permitted firms with the highest credit ratings not to provide collateral to secure their derivatives obligations. Such firms had infinite thresholds and the contractual provisions required these firms to post collateral once the firms' rating falls to a specified credit level. Such an opportunity allowed these firms to amass portfolios consisting of OTC derivatives of significant amounts and risk.”

Noted by: *OTC Markets and Derivatives Trading in Emerging Markets - Final Report – Emerging Markets Committee*

Challenges in the market (cont'd)

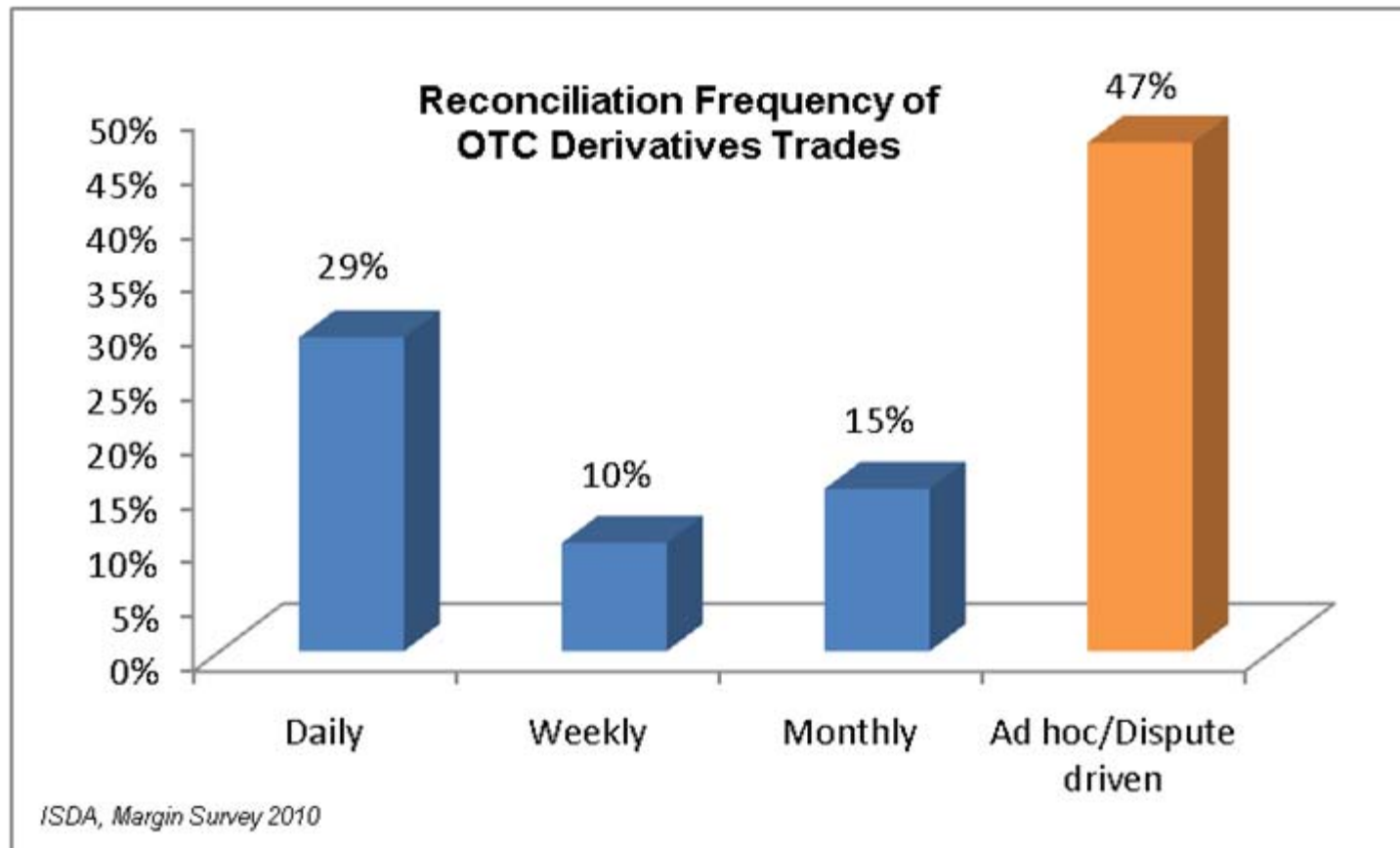
- The figure below indicates the collateral used in the over-the-counter derivatives industry since 2000. ISDA estimates the amount of collateral in use at the end of 2008 as approximately \$4.0 trillion.



Collateral Use in the OTC Derivatives Industry

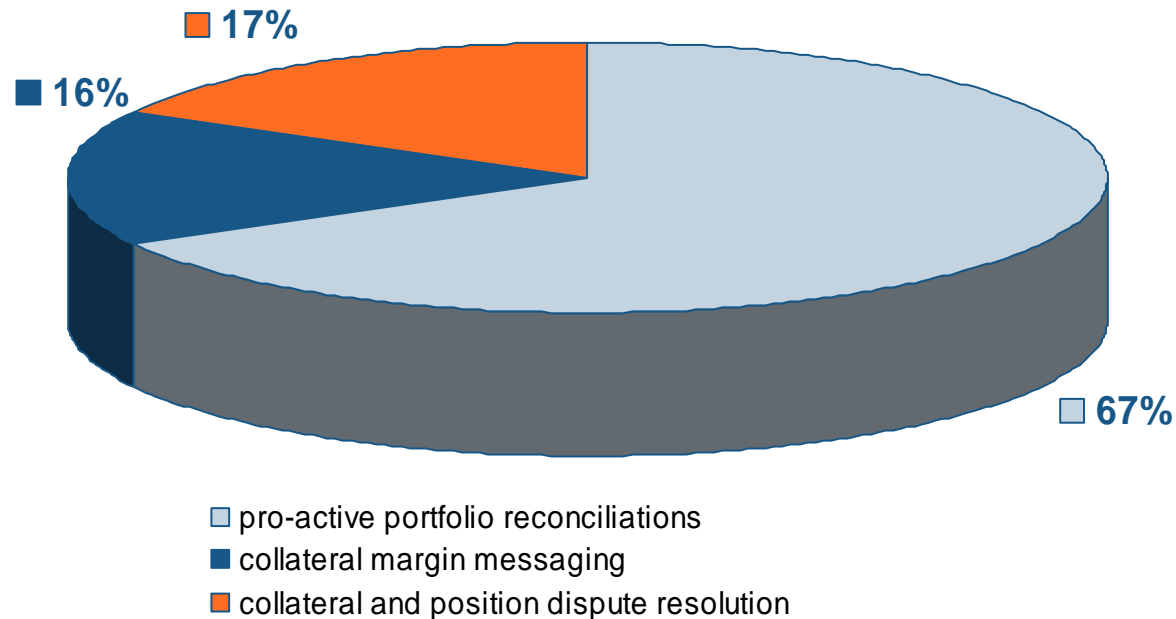
Source: ISDA Margin Survey, 2009.

Industry data



MarkitSERV *Buy-Side Quarterly* polling response

Given current industry and regulatory changes, which of the following challenges in the collateral management and reconciliation environment is your top priority within the next 0-6 months?





Industry commitment

“Continue to work to enhance bilateral collateralization arrangement to ensure robust risk management, including strong legal and market practices and operational frameworks. In particular, continue the work on resolution procedures for valuation margin disputes arising out of bilateral derivatives transaction.”

March 2010 Fed letter

Industry commitment (*cont'd*)

	Standard Timings [3 days]		Extended Timings [9 days]	
	Start	End	Start	End
Step 1: Preliminary Collateralization	T	T	T	T
Step 2: Portfolio Reconciliation			T	T+1
Step 3: Consultation	T	T+1	T+2	T+4
Step 4a: Mutual Informal Dispute Resolution			T+5	T+7
Step 4b: Formal Dispute Resolution	T+1	T+2	T+8	T+8

Source:
Outline of the 2009
ISDA Protocol for
Resolution of
Disputed Collateral Calls

Extended Timings will be invoked at the suggestion of either party and adopted upon the consent of the other party, not unreasonably to be withheld.

■ Dispute Resolution

- The Dispute Resolution Working Group was established to address the growing concerns to current market practice today with regards to dispute resolution being handled in an efficient and timely manner.

■ Targets

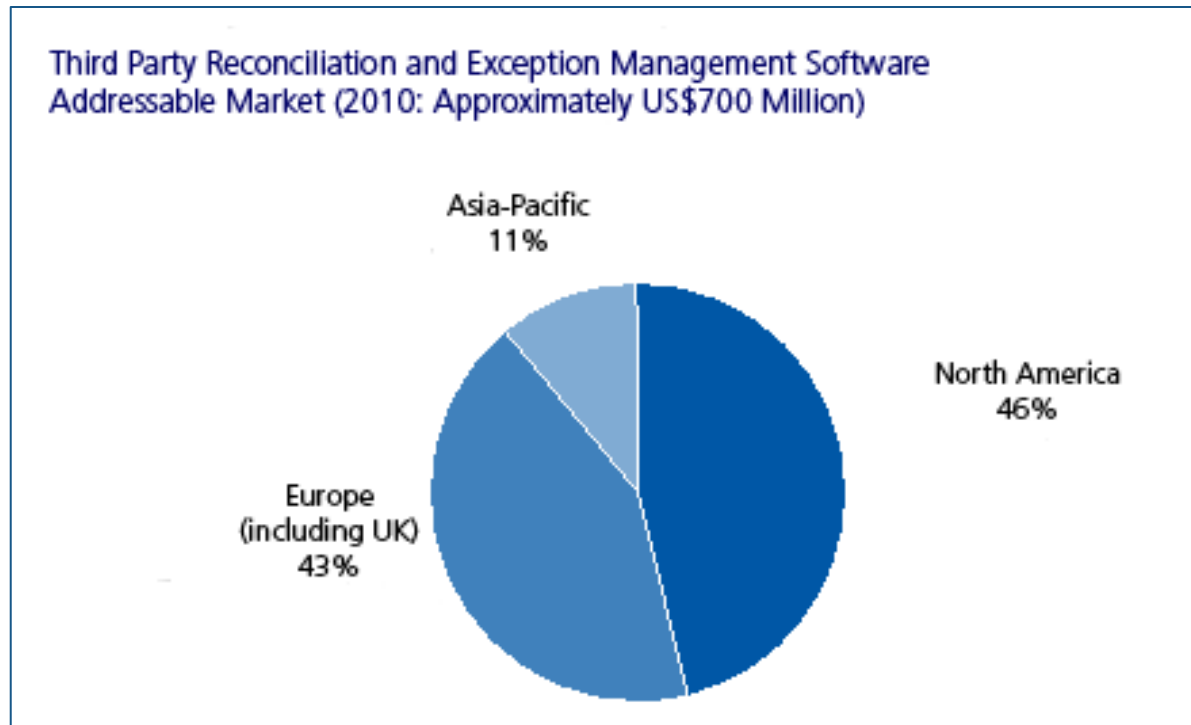
- How to identify a dispute – workflow.
- What is the best resolution methodology: informal to formal dispute resolution.
- 2nd round of testing to be complete by end of Sept 2010

Industry commitment (*cont'd*)

- Industry portfolio reconciliation best practices
 - The Portfolio Reconciliation Best Practice Committee was established with the intention to ensure that the industry was adhering to one standard practice to create consistency and transparency within the marketplace.
- Best practice focus
 - Initial on-boarding, commitments and reconciliation field mappings
 - Timelines, results and prioritization of resolutions
 - Issue management
 - Root cause analysis
 - Reporting
- Ensuring the alignment of Portfolio Reconciliations, Valuations Disputes, and Collateral Management.

Investment in reconciliation: evolution

- Industry participants have recognized the increasing need to invest in robust reconciliation processes.



Source: Reconciliation and Exception Management report, Celent September 2010



Impact of clearing on reconciliations

- Clearing
 - The objective of clearing with regards to reconciliation is that the industry should see the number of positions and portfolios required to be reconciled reduced. However, a key finding within the ISDA Feasibility Study on Collateralized Portfolio Reconciliation noted that there will actually be a shift in reconciliation to a bilateral model of dealer to CCP and buy side to clearing member.



Commentary from a leading derivatives dealer

Martina Meyer zu Selhausen
Dispute Management Operations
UBS Investment Bank

markitSERV™

A joint service from DTCC and Markit

CONFIDENTIAL



Introduction to MarkitSERV PortRec

Devika Darbari
VP, MarkitSERV
Product Management PortRec



markitSERV™

A joint service from DTCC and Markit

CONFIDENTIAL



MarkitSERV PortRec: overview

- **Automatic reconciliation and reconciliation review process**
 - Highly flexible rules engine for optimal reconciliation rates (target by counterparty, product, date and value ranges)
- **Identification of critical economic breaks and online dispute resolution**
 - Drill down to underlying trade details and confirmation status to uncover the root cause of discrepancies through integration with MarkitSERV Trade Manager, MarkitWire, DSMatch and the DTCC TIW.
 - Communication: online dispute resolution, online break resolution, and audit history. Includes the ability to assign positions to internal members of staff, create and extract reports in Excel that you can access 24/7.

MarkitSERV PortRec: overview (*cont'd*)

- **Side by side valuation comparisons**
 - Quickly locate significant valuation differences.
 - Incorporate independent marks via Markit Portfolio Valuation service.
- **Cross-asset management reporting**
 - Instant production of management reports
 - Monitor critical risk exposure, customised valuation threshold tolerance reporting, aging report and productivity metrics with graphical dashboard.
 - Create your own reports through our customisable reporting tool.

MarkitSERV PortRec: benefits summary

- Tri-party and bi-lateral reconciliation: align with your counterparty and fund administrator/custodian to quickly identify areas of risk and valuation differences electronically, for daily and/or month-end reconciliations.
- Offers a complete view of exposure across counterparties and asset classes, whatever the stage of the trade processing lifecycle.
- Removes burden of manual reconciliation while reducing human error.
- Understands the key causes of breaks without manually analysing the data.
- Resolves issues real time and maintains a full audit trail of dispute history.
- Quickly locates discrepancies for immediate resolution of margin calls.

MarkitSERV PortRec: benefits summary *(cont'd)*

- Reduces the number of hours spent translating counterparty statements.
- Communication tools and 'viewer' to engage counterparties in the reconciliation process
- Integrates with Markit RED to ease matching.
- By integrating Markit Portfolio Valuations, MarkitSERV PortRec helps fund managers address demands from regulators, auditors and investors for accurate, independent valuations of OTC derivative instruments for all asset classes.
- User-defined customisable reports
- Links with MarkitSERV Trade Manager, MarkitWire, DSMatch and data from the DTCC TIW for improved break resolution.
- Online dispute resolution with full audit capability

MarkitSERV's end-to-end solutions

- Comprehensive end-to-end solutions through:
 - MarkitSERV Trade Manager (MTM), MarkitWire and DSMatch
 - MarkitSERV PortRec
 - DTCC TIW
 - Markit Independent Portfolio Valuations

Contacts

Eric Maldonado
Managing Director
Global Head of MarkitSERV Sales
Tel: +1 (212) 205-1318
eric.maldonado@markit.com

sales@markitserv.com

U.S. +1 212 205 1700

APAC +81 3 6402 0260

Europe +44 20 7260 2441

Singapore +65 6499 0083

www.markitserv.com

Devika Darbari
Vice President
Product Management PortRec
Tel: +1 (212) 931-4944
devika.darbari@markitserv.com

Download a MarkitSERV
PortRec fact sheet @
markitserv.com by clicking
on Fact Sheets from the
right side dropdown menu.

markitSERV™

References

- The Joint Forum, Review of Differentiated Nature and Scope of Financial Regulation-Key Issues and Recommendations: January 2010
- ISDA, Market Review of OTC Derivative Bilateral Collateralization Practices: March 2010
- OTC Markets and Derivatives Trading in Emerging Markets, Final Report by Emerging Markets Committee of the International Organization of Securities Commissions: July 2010
- Outline of the 2009 ISDA Protocol for Resolution of Disputed Collateral Calls
- ISDA 2010 Roadmap for Collateral Management: 15 April 2010
- ISDA Best Practices for the OTC Derivatives Collateral Process: 30 June 2010
- ISDA Recommended Practices for Portfolio Reconciliation: February 2006
- ISDA Feasibility Study – Collateralised Portfolio Reconciliations: 31 October 2009
- *“Removing the Risk From OTC Derivatives Reconciliation”* – article by Chris Kentouris: 18 May 2009
- *Minimizing Collateral Damage: The case for integrating collateral management into the risk group* – Black Swan Risk Advisors, LLC: February 2007
- Fed Letter: 1 March 2010
- Reconciliation and Exception Management Report – Celent: September 2010

Disclaimer

The content, information and any materials (“data”) provided by MarkitSERV and/or its group companies (“MarkitSERV”) in this presentation is on an “as is” basis. MarkitSERV expressly disclaims all warranties, expressed or implied, as to the accuracy of any data provided, including, without limitation, liability for quality, performance and fitness for a particular purpose arising out of the use of the data.

MarkitSERV shall not have any liability, duty or obligation for or relating to the data contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall MarkitSERV be liable for damages, including, without limitation, damages resulting from lost data or information or lost profits or revenue, the costs of recovering such data, the costs of substitute data, claims by third parties or for other similar costs, or any special, incidental, or consequential damages, arising out of the use of the data.

Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing may violate the intellectual property rights of MarkitSERV under any intellectual property laws such as copyright laws, trademark laws and communications, regulations and statutes.

MarkitSERV Limited is authorised and regulated by the Financial Services Authority. This communication is directed only at persons who can be categorised as Eligible Counterparties or Professional Clients in accordance with COB 3.5 & 3.6 of the FSA Handbook, and the services described herein are available only to such persons. Any other persons should not rely on any information contained in this material.