

PRESIDENT'S WORKING GROUP ON FINANCIAL MARKETS POLICY OBJECTIVES FOR THE OTC DERIVATIVES MARKET

Under the auspices of the PWG, the Secretary of the Department of the Treasury, the Chairs of the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission and the Commodity Futures Trading Commission and the Office of the Comptroller of the Currency have established the following policy objectives for the OTC derivatives market, with a primary focus on credit default swaps.

Improve Market Transparency and Integrity for Credit Default Swaps

- Public reporting of prices, trading volumes and aggregate open interest should be required to increase market transparency for participants and public.
- Regulators should have access to trade and position information housed at central counterparties (CCPs) and central trade repositories for the purpose of monitoring market trends, identifying potential issues, and preventing market manipulation and insider trading.

Enhance Risk Management of OTC Derivatives

- Regulators should establish consistent policy standards and risk management expectations for CCPs or other systemically important derivatives market infrastructures and apply those standards consistently.
- Regulators and prudential supervisors should set consistent standards for regulated entities that transact in OTC derivatives instruments, particularly regarding risk management practices.
 - Regulators and prudential supervisors should consider how to enhance the effectiveness of existing policies applicable to OTC derivatives contracts that are not cleared by a CCP.
- Market participants should adopt best practices with respect to risk management for OTC derivatives activities, including public reporting, liquidity management, senior management oversight and counterparty credit risk management.
 - Such practices should include the use of legally-enforceable netting and collateral agreements between counterparties where possible.

Strengthen OTC Derivatives Market Infrastructure

- Regulators and prudential supervisors should require participants in a central counterparty arrangement to clear all eligible contracts through that CCP.
 - The use of CCPs by end-users should be encouraged by strengthening, where necessary, the legal framework governing the bankruptcy regime to ensure adequate customer protection.
- Details of all credit default swaps that are not cleared through a CCP should be retained in a central contract repository.
- Central contract repositories should be encouraged for other OTC derivatives asset classes.
- Use of exchange or similar trading platforms for standardized CDS contracts should be encouraged. These trading venues should provide pre-trade transparency to their participants. Participants should also be able to bilaterally negotiate customized contracts where there are benefits in doing so, subject to continued oversight by their prudential supervisors.
- All market participants should have open and fair access to key infrastructure components, such as trading venues, CCPs and central contract repositories.
- Prudential supervisors should continue their cooperative efforts to improve the operational infrastructure for all OTC derivatives, including encouraging further improvements to post-trade automation, frequent portfolio compression for outstanding trades and enhancing standardized documentation.

Continue Cooperation among Regulatory Authorities

- Regulatory agencies should review whether they have adequate enforcement authority to police against fraud and market manipulation and propose changes in authority where warranted.
- Regulatory agencies in the U.S. and other jurisdictions with significant OTC derivatives activity should expand existing frameworks for cooperation, coordination and information sharing.