

May 15, 2007

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

Dear Mr. Geithner:

We are pleased to update you on our efforts to improve the efficiency of the equity derivatives market, following our November 21 letter. The eighteen signatories below (the “Major Dealers”), working in partnership with the International Swaps and Derivatives Association, Inc. (ISDA) and its member organizations, as well as Managed Funds Association (MFA), and the Asset Management Group of the Securities Industry and Financial Markets Association (SIFMA), are making substantial progress toward our long-term goal of operational efficiency across the derivatives industry.

Following the November 21, 2006 commitments made by seventeen of the Major Dealers, we have:

- Worked with ISDA, MFA and SIFMA to publish the ISDA Variance Swap Templates for the U.S., Europe, Japan and Asia ex-Japan;
- Operated on at least one industry-accepted electronic confirmation processing platform by March 31, 2007, and nearly all dealers were operating credibly on one other such platform by piloting one or more products with a dealer or client, with all Major Dealers committed to electronically matching at least one product on a second platform with a dealer or client by mid-Summer 2007;
- Each exceeded our January 31 target to reduce by 25% our backlog of equity derivative trade confirmations outstanding over 30 days. The Major Dealers have set further targets below, recognizing a subsequent increase in backlogs through March for certain dealers;
- Established a bilateral schedule of lock-in meetings to finalize master confirmations and resolve outstanding confirmations where required. These are set to continue through June 2007;
- Continued to track our commitment to be live with new products within 60 days on at least one electronic confirmation platform once an industry MCA is published and the platforms begin supporting the new product;
- Continued to track our progress as an industry through a common set of metrics provided to our supervisors, now including interest rate derivatives and a quarterly submission of commodities metrics;
- Continued to work on improving the operational efficiency within the credit derivatives industry, including preparation for the Trade Information Warehouse;
- Published industry trend graphs on Markit’s website covering credit derivatives, equity derivatives and interest rate derivatives.

The eighteen Major Dealers additionally commit to the following future targets:

Equity Derivative Platform Strategy:

- We commit to processing a substantial majority of Eligible Trades between Major Dealers through electronic platforms by year end, where Eligible Trades are defined as all

confirmable events for index and single-name options and variance swaps in the US, Europe and Japan. To do so, each Major Dealer will:

- Process a minimum 55% of Eligible Trades between Major Dealers through electronic platforms during the month of June 2007, sustaining that level through July and August 2007,
- Process a minimum 70% during September 2007, sustaining that level through October 2007,
- Process minimum 80% during November 2007, sustaining that level in future periods.
- We may adjust the definition of Eligible Trades as the year progresses to reflect newly Eligible products or regions.

Equity Derivative Master Confirmation and Documentation Strategy:

Current standardized documentation:

- The Major Dealers commit to execute between one another the ISDA published master confirmations for the Eligible Trades as of April 30, 2007 by May 31, 2007, where the dealers have material outstanding transactions in the relevant products between one another;
- The Major Dealers will continue to work with the ISDA equity derivative groups and MFA to finalize the European equity derivatives master confirmation agreement.

Future standardization:

- Continue to work with the ISDA equity derivative groups, MFA and SIFMA as necessary, to prioritize the master confirmations required on products that will ensure a move to substantial electronic matching, and will establish a timeframe for completing all current master confirmations under discussion according to the attached prioritized plan by May 31, 2007;
- Continue to work with the ISDA equity derivative groups, MFA and SIFMA as necessary, to consolidate and resolve master confirmation and language issues in an inclusive manner with the market, ensuring adequate participation from the Major Dealers.

Equity Derivative Client On-boarding Strategy:

- The Major Dealers will, in conjunction with the ISDA equity derivative groups, MFA and SIFMA, prepare a plan that outlines a broader client on-boarding strategy by July 31, 2007. This plan will move toward substantially increasing client usage of equity derivative electronic processing platforms by 2008, in keeping with the broad goals outlined in the November 21, 2006 letter;
- In addition, the Major Dealers will continue bi-lateral negotiations with and commit to undertake on-boarding of interested buy-side market participants as soon as is practicable.

Equity Derivative Backlog Target Reduction:

- Continued progress in backlog reduction relies upon the implementation of the three strategies outlined above. In addition the Major Dealers commit to work with MFA and SIFMA to develop appropriate strategies and “rules of engagement” designed to ensure that progress made on reducing backlogs is sustainable. Our target is to reduce the equity derivative trade confirmations outstanding over 30 days by 40% as of June 30, 2007 and by 55% as of September 30, 2007 from each Major Dealer high level;
 - High levels set between July and September 2006 for seventeen dealers, and between January and March 2007 for the newly joining dealer;
 - Dealers are to maintain each backlog target at a minimum subsequent to each target date.

Personnel and other Resources:

- Major Dealers have provided, or will provide, for sufficient operational, technology and legal resources as well as trading and sales business unit involvement to achieve the outlined targets.

Future State:

- By September 30, 2007, we will outline our plan to achieve the equity derivatives industry's longer term objective of a steady state electronic processing environment with strong client participation, including market standard confirmation processing guidelines:
 - Issued within T+1 business days for electronic trade submission and T+10 calendar days for non electronic issuance;
 - Match/affirm within T+5 business days on electronic platforms and T+30 calendar days for paper execution.

Overall Co-ordination:

- The Senior Oversight Group ("SOG"), with representation from the Major Dealers, ISDA, MFA and SIFMA, will maintain overall co-ordination for implementing the strategy outlined above.

We look forward to continuing the collaborative and productive effort with our client constituencies as we continue to improve operational efficiency across the derivatives industry.

Yours Sincerely from the Senior Managements of:

Bank of America, N.A.
Barclays Capital
Bear, Stearns & Co.
BNP Paribas
Citigroup
Credit Suisse
Deutsche Bank AG
Dresdner Kleinwort
Goldman, Sachs & Co.

HSBC Group
JP Morgan Chase
Lehman Brothers
Merrill Lynch & Co.
Morgan Stanley
The Royal Bank of Scotland Group
Société Générale
UBS AG
Wachovia Bank, N.A.

Equity Derivatives Documentation Matrix
May 11, 2007

Product	Asia Ex Japan¹	Europe	Japan	N. America
Index Swap	<i>Interdealer form</i> Published September 13, 2005*	<i>One form (covering interdealer and dealer/ client)</i> Expected publication May 2007	Not prioritized currently	<i>Interdealer form</i> Published 2004
Index Option	<i>Interdealer form</i> Published September 13, 2005*	<i>One form (covering interdealer and dealer/ client)</i> Published May 10, 2007	<i>Interdealer form</i> Published 2005	<i>Interdealer form</i> Published 2004
Share Swap	<i>Interdealer form</i> Published September 13, 2005*	<i>One form (covering interdealer and dealer/ client)</i> Expected publication May 2007	Not prioritized currently	<i>Interdealer form</i> Published 2004
Share Option	<i>Interdealer form</i> Published September 13, 2005*	<i>One form (covering interdealer and dealer/ client)</i> Published May 10, 2007	<i>Interdealer form</i> Published 2005	<i>Interdealer form</i> Published 2004
Share Variance	<i>One form (covering interdealer and dealer/ client)</i> Published February 12, 2007	<i>One form (covering interdealer and dealer/ client)</i> Published March 7, 2007	<i>Interdealer+ client forms</i> Published January 2007	<i>Interdealer + client forms</i> Revised versions published January 30, 2007
Index Variance	<i>One form (covering interdealer and dealer/ client)</i> Published February 12, 2007	<i>One form (covering interdealer and dealer/ client)</i> Published March 7, 2007	<i>Interdealer + client forms</i> Published June 2006 + January 2007	<i>Interdealer + client forms</i> Revised versions published January 30, 2007**
Index Dividend Swap	Not prioritized currently	<i>One form (covering interdealer and dealer/ client)</i> Project to commence June 2007	<i>One form (covering interdealer and dealer/ client)</i> Project to commence May 2007	Not prioritized currently
Share Dividend Swap	Not prioritized currently	<i>One form (covering interdealer and dealer/ client)</i> Project to commence June 2007	<i>One form (covering interdealer and dealer/ client)</i> Project to commence May 2007	Not prioritized currently
Depository Receipt Annex (ADRs and GDRs)	<i>One Form</i> Project commenced May 2007	<i>One Form</i> Project commenced May 2007	<i>One Form</i> Project commenced May 2007	<i>One Form</i> Project commenced May 2007

¹ Australia, Hong Kong, India, Indonesia, Korea, Malaysia, New Zealand, Singapore, Taiwan and Thailand.