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U.S. DEPARTMENT OF THE TREASURY

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November 14, 2008
HP-1272

PWG Announces Initiatives to Strengthen OTC Derivatives Oversight and Infrastructure

Washington- The President's Working Group on Financial Markets today announced a series of initiatives to strengthen oversight and the infrastructure of the over-the-counter derivatives market.

Initiatives announced today include the development of credit default swap central counterparties, some of which will commence operations before the end of 2008, and the establishment of a Memorandum of Understanding regarding CDS central counterparties among the Federal Reserve Board of Governors, the Securities and Exchange Commission and the Commodity Futures Trading Commission. The PWG also announced a broad set of policy objectives to guide efforts to address the full range of challenges associated with OTC derivatives and issued a progress summary to provide an overview of the results of ongoing efforts to strengthen the infrastructure of OTC derivatives markets.

The Treasury Secretary serves as chair of the group, which includes the Chairs of the Federal Reserve Board, the Securities and Exchange Commission, and the Commodity Futures Trading Commission. The PWG, working with the Office of the Comptroller of the Currency and the Federal Reserve Bank of New York, has been actively overseeing improvements underway in OTC derivatives markets and the reports issued today identify the progress already made and specific objectives for the relevant supervisors going forward.

Over-the-counter derivatives are integral to the smooth functioning of today's complex financial markets and, with appropriate regulatory oversight and prudent management can enhance the ability of market participants to manage risk. The rapid growth of OTC derivatives markets over the past several years reflects their increasing importance to market participants.

Development of CDS Central Counterparties

The PWG's top near-term OTC derivatives priority is to oversee the successful implementation of central counterparty services for credit default swaps. A well-regulated and prudently managed CDS central counterparty can provide immediate benefits to the market by reducing the systemic risk associated with counterparty credit exposures. It also can help facilitate greater market transparency and be a catalyst for a more competitive trading environment that includes exchange trading of CDS.

At the prompting of the PWG, several potential central counterparty providers have accelerated the development of their efforts. The relevant regulatory authorities are assessing these central counterparty proposals by conducting detailed on-site reviews of risk management and other key design elements. After completing the on-site reviews, regulators expect to proceed toward regulatory approvals and/or exemptions expeditiously and anticipate that one or more CDS central counterparties will commence operations before the end of 2008.

Memorandum of Understanding among the CFTC, SEC and Federal Reserve

To facilitate the regulatory approval process and to promote more consistent regulatory oversight, the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission and the Commodity Futures Trading Commission today signed a Memorandum of Understanding. The Memorandum of Understanding establishes a framework for consultation and information sharing on issues related to CDS central counterparties.

The PWG's Policy Objectives for OTC Derivatives

The PWG is announcing a set of additional policy objectives to guide efforts to address challenges associated with OTC derivatives, consistent with the recommendations of the Financial Stability Forum.

U.S. and foreign supervisors embarked on an effort in 2005 to improve how market participants manage their OTC derivatives operations, which had not matured sufficiently to support increased trading volumes. These efforts sought to enhance other elements of the market infrastructure, reduce systemic risk and address operational risks that have accompanied the growth of OTC derivatives.

In light of recent developments, the PWG is issuing broader objectives than those that motivated the PWG's previous OTC derivatives recommendations in the [March 13 PWG Policy Statement on Financial Market Developments](#).

The PWG has established the following policy objectives:

- 1) improve the transparency and integrity of the credit default swaps market;
- 2) enhance risk management of OTC derivatives;
- 3) further strengthen the OTC derivatives market infrastructure;
- 4) strengthen cooperation among regulatory authorities.

The agencies in the PWG will work with other regulators and market participants to achieve these goals over the next several months. Where necessary, they will support legislative change.

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REPORTS

- [MOU](#)
- [Progress Summary](#)
- [Policy Objectives](#)