



NEWS RELEASE
For Immediate Release

**ISDA Publishes Discussion Paper on:
“Costs and Benefits of Mandatory Electronic Execution Requirements
for Interest Rate Products”**

NEW YORK, November 10, 2011 -- The International Swaps and Derivatives Association, Inc. (ISDA) today announced the publication of an in-depth discussion and analysis of the impact of electronic execution requirements on over-the-counter (OTC) derivatives markets that were mandated by the Dodd-Frank Act.

The paper, “Costs and Benefits of Mandatory Electronic Execution Requirements for Interest Rate Products,” was developed by ISDA staff and consultants in conjunction with NERA Economic Consulting, which assisted with research and analysis.

The paper explores and analyzes whether the market structure being developed by the Commodity Futures Trading Commission to implement these requirements will meet the CFTC’s key goals: increase the efficiency of the market by reducing transaction costs, improving access to markets and increasing transparency. The paper also assesses the costs and expenses that market participants and ultimately end-users are likely to bear as a result of the mandate’s implementation.

The paper finds that:

- OTC derivatives pricing is extremely competitive, compares favorably to similar futures products and, unlike futures execution, is available in large transactions.
- The electronic execution mandate and the proposed new regulatory framework will limit choice for end-users and ultimately increase transaction costs.
- The possible benefits for small end-users will be no more than \$1,000 for a \$10 million interest rate swap before fees for execution and clearing. Any net benefit for small end-users will be dramatically outweighed by costs to the market as a whole.
- Estimated initial set-up costs to market participants from the new rules are more than \$750 million while ongoing costs are more than \$250 million per annum.
- The initial and ongoing costs identified in the paper amount to approximately \$1,300 per transaction. These costs, of course, do not currently exist in the marketplace.
- Derivatives users believe restrictive provisions in the proposed rules such as the 15 second rule, the requirement for at least five participants to quote through a request for quote (“RFQ”) platform, very high block trade thresholds and very short block trade reporting delays will negatively impact liquidity and push transaction costs up further.

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“Our research and analysis indicate that the electronic execution mandate will result in higher bid-offer spreads and significant costs, most of which will be borne by end users,” said Conrad Voldstad, ISDA Chief Executive Officer. “There is little to suggest that it may benefit any market participants. There is, to the contrary, much to suggest that it will take away users’ choice, create inefficiencies and discourage innovation.”

Mr. Voldstad also noted that the mandate for electronic execution is not related to safety or soundness issues, which are properly covered in rules regarding clearing and reporting of transaction data to regulators. It is instead a market structure issue that should be justified by rigorous cost-benefit analysis as required by law. Toward that end, ISDA decided to conduct a comprehensive study of the relevant issues. The study indicates that the mandate will, in all likelihood, bring little or no benefit to the market while adding significantly to the costs of using derivatives for end-users.

The paper is available on the [ISDA website](#).

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About ISDA

Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA is one of the world’s largest global financial trade associations, with over 825 member institutions from 57 countries on six continents. These members include a broad range of OTC derivatives market participants: global, international and regional banks, asset managers, energy and commodities firms, government and supranational entities, insurers and diversified financial institutions, corporations, law firms, exchanges, clearinghouses and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

About the ISDA Discussion Papers

The ISDA Discussion Papers are a new series of publications covering key topics in derivatives, public policy and financial regulation. Each is aimed at informing debate, encouraging discussion and illuminating public policy options as the derivatives markets evolve. Since its inception, ISDA has led the debate on derivatives matters, and the discussion paper series continues that tradition of thought leadership.

About NERA

NERA Economic Consulting (www.nera.com) is a global firm of experts dedicated to applying economic, finance, and quantitative principles to complex business and legal challenges. For half a century, NERA's economists have been creating strategies, studies, reports, expert testimony, and policy recommendations for government authorities and the world's leading law firms and

corporations. We bring academic rigor, objectivity, and real world industry experience to bear on issues arising from competition, regulation, public policy, strategy, finance, and litigation.

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NERA's clients value our ability to apply and communicate state-of-the-art approaches clearly and convincingly, our commitment to deliver unbiased findings, and our reputation for quality and independence. Our clients rely on the integrity and skills of our unparalleled team of economists and other experts backed by the resources and reliability of one of the world's largest economic consultancies. With its main office in New York City, NERA serves clients from more than 20 offices across North America, Europe, and Asia Pacific.

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