Derivatives: Practices and Principles
Appendix III: Survey of Industry Practice

Global Derivatives Study Group

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Appendix III

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This Appendix is the fourth and final volume of the report, "Derivatives: Practices and Principles," by the Global Derivatives Study Group.

In January and February 1993, Price Waterhouse conducted surveys of dealers and end-users to characterize risk management practice and help identify priorities for its improvement for the Study. After the main report and the first two appendices were published in July, the Working Group turned to the task of collating the results for publication. These are presented here in a summary form that protects the confidential nature of the individual survey responses.

During the survey, questionnaires were sent to about 150 dealers, of whom 80 sent back responses. With the exception of the section on Senior Management Perspectives, which was addressed to a senior management representative, questions were addressed to managers in the derivatives area. Questionnaires were also sent to about 150 end-users, and 72 responses were received, typically from the Chief Financial Officer.

The order of the subjects in each section of this Appendix corresponds to their order in the questionnaires, although they have been renumbered for ease of reference. Each chart or graph corresponds to a question or a set of consecutive questions in the surveys. The text with each chart or graph is substantially the same as that used in the questionnaires.

This Appendix offers insights into the policies, concerns and practices of both dealers and end-users of derivatives in early 1993. It is best understood in conjunction with the other volumes of this report which, in addition to giving many of the main results from the surveys, provide a context for the other results summarized here. The reader is reminded that practice among dealers and end-users has been evolving rapidly over the past year, partly in response to the public debate on risk management techniques that has been underway during this period; practice today is likely to be significantly different from that described here.
# Survey of Industry Practice Dealers

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Section 1  

Respondent Profile  

Activities and Products

1.1 Indicate the notional amounts to the nearest US dollar billion equivalent of new business in 1992 in derivatives. Do not include your activity in exchange traded futures and options or hybrid securities. (Calculated as percent of respondents with activity of given notional amount and maturity.)  
[Number of respondents indicated for each maturity band]

<table>
<thead>
<tr>
<th>Relative Volumes</th>
<th>More than 1 year [58]</th>
<th>Between 3 months and 1 year [55]</th>
<th>3 months or less [50]</th>
<th>Total for all maturities [62]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>47%</td>
<td>33%</td>
<td>38%</td>
<td>16%</td>
</tr>
<tr>
<td></td>
<td>31%</td>
<td>40%</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td></td>
<td>22%</td>
<td>27%</td>
<td>40%</td>
<td>63%</td>
</tr>
</tbody>
</table>

Key

- Less than US$25 billion
- US$25-100 billion
- More than US$100 billion

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
1.2 How do you characterise your *current* and *planned* activity in derivatives products? [79 respondents]

**Relative Volumes**

- Predominately domestic dealer: 9%
- Global dealer - selected range: 20%
- Global dealer - full range: 71%

**Predominantly domestic dealer**

- Current: 13%
- Planned: 32%

**Global dealer for selected rate and currency products**

- Current: 43%
- Planned: 44%

**Global dealer for full range of products including interest rate, currency, equity, and/or commodity**

- Current: 24%
- Planned: 44%

**Key**

- Current: 
- Planned:

1.3 How valuable do you consider derivatives to be in controlling risk within your organization *outside any dealer activity*? [78 respondents]

**Value of Derivatives**

- Very important: 38%
- Imperative: 40%
- Important: 18%
- Of little value: 3%
- Not very important: 1%

**Note:** Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
1.4 To what extent does the market risk exposure assumed by your firm arise from using derivatives as opposed to non-derivative products (i.e., cash instruments or spot transactions)? [Current, 79 respondents; planned, 80 respondents]

- Market risk exposure arises primarily from derivative positions: 9% current, 13% planned
- Market risk exposure arises in similar amounts from derivatives and non-derivatives: 41% current, 58% planned
- Market risk exposure arises primarily from non-derivative positions: 51% current, 30% planned

Key
- Current
- Planned

1.5 To what extent do you use over-the-counter derivatives relative to exchange traded derivatives to take market risk positions? [Current, 78; planned, 79 respondents]

- We use mainly over-the-counter derivatives (relative to exchange traded derivatives) to take market risk positions: 47% current, 39% planned
- About the same: 32% current, 42% planned
- We use mainly exchange traded derivatives (relative to over-the-counter derivatives) to take market risk positions: 18% current, 17% planned
- Do not use either: 3% current, 3% planned

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
1.6 Please indicate the phrase that best describes the way you manage the various aspects of your derivatives business, and if a change of organization is planned within the next 18 months, indicate planned. [79 respondents]

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Current</th>
<th>Planned</th>
<th>Centralized</th>
<th>Decentralized</th>
<th>Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Origination of Transaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Risk Approval</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pricing/Execution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Risk Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Counterparty Risk Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Documentation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Back Office Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Systems Development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Allocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction Database</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key:
- Current
- Planned
- Centralized
- Decentralized
- Not applicable

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
### Section 2 - Senior Management Perspectives

#### Documentation

2.1 Indicate the level of concern regarding the following issues. [Number of respondents indicated for each issue]

<table>
<thead>
<tr>
<th>Issue</th>
<th>Serious Concern</th>
<th>Some Concern</th>
<th>Little Concern</th>
<th>Not Relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enforceability of netting provisions in the jurisdiction(s) of the counterparty in the event of default [78]</td>
<td>44%</td>
<td>46%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Lack of consistency of own documentation [78]</td>
<td>5%</td>
<td>36%</td>
<td>50%</td>
<td>9%</td>
</tr>
<tr>
<td>Backlog of unsigned legal documentation [78]</td>
<td>11%</td>
<td>35%</td>
<td>47%</td>
<td>6%</td>
</tr>
<tr>
<td>Risk of undertaking transactions without subsequently being able to complete documentation [78]</td>
<td>6%</td>
<td>30%</td>
<td>56%</td>
<td>8%</td>
</tr>
<tr>
<td>Uncertainty over legal status of transactions with certain types of counterparty [78]</td>
<td>13%</td>
<td>42%</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Difficulty of ascertaining a counterparty’s suitability of purpose in entering into a specific derivatives transactions [78]</td>
<td>6%</td>
<td>37%</td>
<td>45%</td>
<td>11%</td>
</tr>
<tr>
<td>Difficulty in achieving a high degree of cross-product counterparty exposure netting through Master Agreements [78]</td>
<td>19%</td>
<td>52%</td>
<td>26%</td>
<td></td>
</tr>
<tr>
<td>Less rigorous documentation standards for shorter term transactions or certain products [78]</td>
<td>26%</td>
<td>55%</td>
<td>16%</td>
<td></td>
</tr>
</tbody>
</table>

**Key**

- Serious Concern
- Some Concern
- Little Concern
- Not Relevant

**Note:** Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
## Counterparty Risk

2.2 Indicate the level of concern regarding the following issues. [Number of respondents indicated for each issue]

<table>
<thead>
<tr>
<th>Issue</th>
<th>Serious Concern</th>
<th>Some Concern</th>
<th>Little Concern</th>
<th>Not Relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentration of exposure on a few counterparties [78]</td>
<td>5%</td>
<td>55%</td>
<td>36%</td>
<td></td>
</tr>
<tr>
<td>Long-term nature of the commitments and corresponding credit exposure [78]</td>
<td>26%</td>
<td>52%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Difficulty in properly quantifying the potential exposure of individual transactions [78]</td>
<td>11%</td>
<td>45%</td>
<td>37%</td>
<td>6%</td>
</tr>
<tr>
<td>Difficulty in properly aggregating exposures by counterparty [78]</td>
<td>9%</td>
<td>37%</td>
<td>47%</td>
<td>6%</td>
</tr>
<tr>
<td>Inability of information systems to aggregate risks adequately over products and locations [78]</td>
<td>25%</td>
<td>37%</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Enforceability of collateral held [79]</td>
<td>25%</td>
<td>55%</td>
<td>21%</td>
<td></td>
</tr>
</tbody>
</table>

**Key**
- Serious Concern
- Some Concern
- Little Concern
- Not Relevant

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Valuation and Market Risk Management

2.3 Indicate the current level of concern regarding the following issues. [Number of respondents indicated for each issue]

<table>
<thead>
<tr>
<th>Issue</th>
<th>Serious Concern</th>
<th>Some Concern</th>
<th>Little Concern</th>
<th>Not Relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mispricing of risk by own traders [79]</td>
<td>26%</td>
<td></td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>Mispricing of risk by other dealers [79]</td>
<td>19%</td>
<td></td>
<td>72%</td>
<td>8%</td>
</tr>
<tr>
<td>Inadequacy of (your) risk management systems to report consolidated risks on a timely basis [80]</td>
<td>19%</td>
<td>38%</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Complexity of business [80]</td>
<td>13%</td>
<td>58%</td>
<td>23%</td>
<td>6%</td>
</tr>
<tr>
<td>Inappropriate treatment or proposed treatment by regulators of market risk in derivatives [80]</td>
<td>33%</td>
<td>48%</td>
<td>14%</td>
<td>6%</td>
</tr>
<tr>
<td>Robustness of crash scenarios used [79]</td>
<td>9%</td>
<td>52%</td>
<td>34%</td>
<td></td>
</tr>
<tr>
<td>Illiquidity of certain derivative products [80]</td>
<td>23%</td>
<td>63%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Inconsistency of valuation models between different institutions [79]</td>
<td>28%</td>
<td>56%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Inconsistency of valuation models within your own institution [79]</td>
<td>25%</td>
<td>56%</td>
<td>15%</td>
<td></td>
</tr>
</tbody>
</table>

Key

- Serious Concern
- Some Concern
- Little Concern
- Not Relevant

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
# Operations, Technology and Audit

## 2.4

Indicate the level of concern regarding the following issues. [Number of respondents indicated for each issue]

<table>
<thead>
<tr>
<th>Issue</th>
<th>Serious</th>
<th>Some</th>
<th>Little</th>
<th>Relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate assessment and quantification of operational risk [78]</td>
<td>11%</td>
<td>46%</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>Derivatives activity exceeds our capacity to process and settle on a timely basis [79]</td>
<td>23%</td>
<td>65%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Inadequate understanding of product by back office staff [80]</td>
<td>8%</td>
<td>34%</td>
<td>49%</td>
<td>9%</td>
</tr>
<tr>
<td>Fragmentation of systems between front and back office [80]</td>
<td>19%</td>
<td>39%</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Two-speed systems development where back office systems constantly lag front office [79]</td>
<td>15%</td>
<td>39%</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>Inadequate disaster recovery plan [80]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of control over front office pricing models [80]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inadequate technical understanding of product by internal/external auditors [79]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liability for valuation software distributed to end users [79]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difficulties in reconciling front and back office valuation and profitability information [78]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Key

- **Serious Concern**
- **Some Concern**
- **Little Concern**
- **Not Relevant**

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
People and Organization

2.5 Indicate the level of concern regarding the following issues. [Number of respondents indicated for each issue]

| Issue                                                                 | 9% | 15% | 30% | 46% | 57% | 6% | 10% | 23% | 53% | 9% | 33% | 53% | 9% | 41% | 44% | 9% | 17% | 58% | 21% | 6% | 24% | 51% | 19% | 39% | 46% | 11% | 9% | 25% | 52% | 13% |
|-----------------------------------------------------------------------|-----|-----|-----|-----|-----|----|-----|-----|-----|----|-----|-----|----|-----|-----|----|-----|-----|----|-----|-----|----|-----|-----|----|-----|-----|----|
| Insufficient understanding of derivatives by senior management [79]   |     |     |     |     |     |    |     |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |
| Insufficient understanding of derivatives by other functions [79]    |     |     |     |     |     |    |     |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |
| Lack of formal training for derivatives [79]                         |     |     |     |     |     |    |     |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |
| "Black box" attitude of derivatives professionals [79]              |     |     |     |     |     |    |     |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |
| Over-reliance on a few specialists [79]                             |     |     |     |     |     |    |     |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |
| Lack of integration of derivative(s) in organizations [80]           |     |     |     |     |     |    |     |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |
| Lack of experience of derivatives professionals [80]                |     |     |     |     |     |    |     |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |
| Gulf between front and back office professionals [80]                |     |     |     |     |     |    |     |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |
| Compensation system for derivatives professionals encourages excessive risk taking and favors short-term over long-term objectives [78] |     |     |     |     |     |    |     |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |
| Fragmentation of derivatives activities between different business units with higher interaction or common reporting [79] |     |     |     |     |     |    |     |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |
| Difficulty in measuring correctly the performance of derivatives professionals [79] |     |     |     |     |     |    |     |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |
| High remuneration for derivatives professionals relative to others in the organization [78] |     |     |     |     |     |    |     |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |     |     |    |

Key

- **Serious Concern**
- **Some Concern**
- **Little Concern**
- **Not Relevant**

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Performance Measurement and Accounting

2.6 Indicate the level of concern regarding the following issues. [Number of respondents indicated for each issue]

<table>
<thead>
<tr>
<th>Issue</th>
<th>Serious Concern</th>
<th>Some Concern</th>
<th>Little Concern</th>
<th>Not Relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequacy of internal accounting policies [80]</td>
<td>11%</td>
<td>33%</td>
<td>48%</td>
<td>8%</td>
</tr>
<tr>
<td>Lack of integrity of management information on risk and profitability [79]</td>
<td>6%</td>
<td>30%</td>
<td>54%</td>
<td>10%</td>
</tr>
<tr>
<td>Inconsistency of accounting standards with the economics of the business [78]</td>
<td>20%</td>
<td>42%</td>
<td>32%</td>
<td>6%</td>
</tr>
<tr>
<td>Inadequate public disclosure of exposure (especially off balance sheet) of counterparties [78]</td>
<td>16%</td>
<td>42%</td>
<td>37%</td>
<td></td>
</tr>
<tr>
<td>Inappropriate treatment of netting by regulators in setting capital adequacy standards [80]</td>
<td>44%</td>
<td>34%</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Lack of understanding of derivatives among financial control staff [80]</td>
<td>6%</td>
<td>48%</td>
<td>36%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Key
- Serious Concern
- Some Concern
- Little Concern
- Not Relevant

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Section 3

Documentation

Counterparty Documentation

3.1 Using transactions executed with external counterparties in 1992 (or a representative period) as a basis for calculation, how were transactions documented with your counterparties? [Number of respondents indicated for each type of documentation; values shown are average responses]

Respondent’s method of calculating documentation

- Value of transaction 27%
- Number of transactions 73%

<table>
<thead>
<tr>
<th>Derivatives</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rates derivatives [79]</td>
<td>79%</td>
<td>9%</td>
</tr>
<tr>
<td>Currency derivatives excluding FX forwards and options [65]</td>
<td>77%</td>
<td>13%</td>
</tr>
<tr>
<td>FX forwards and options [67]</td>
<td>19%</td>
<td>11%</td>
</tr>
<tr>
<td>Equity derivatives [34]</td>
<td>64%</td>
<td>28%</td>
</tr>
<tr>
<td>Commodity derivatives [28]</td>
<td>59%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Key

- Master Agreements
- Individual Transaction Agreements
- Confirmations

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.2  In establishing Master Agreements with dealer counterparties, how frequently do you use or plan to use the following? [Number of current and planned respondents are indicated for each question]

<table>
<thead>
<tr>
<th>ISDA Master Agreement with little or no modification [78; 75]</th>
<th>76%</th>
<th>9%</th>
<th>10%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>81%</td>
<td>10%</td>
<td>6%</td>
</tr>
<tr>
<td>ISDA Master Agreement with major modifications [74; 72]</td>
<td>27%</td>
<td>33%</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td>12%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>AFMA modifications to ISDA Master Agreement [67; 65]</td>
<td>11%</td>
<td>85%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>11%</td>
<td>86%</td>
<td></td>
</tr>
<tr>
<td>BBA standard terms [74; 72]</td>
<td>26%</td>
<td>14%</td>
<td>32%</td>
</tr>
<tr>
<td></td>
<td>28%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>23%</td>
<td>7%</td>
<td>39%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>AFB standard items [72; 70]</td>
<td>26%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>64%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>28%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>German Master Agreement for swap transactions [71; 70]</td>
<td>10%</td>
<td>7%</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>66%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>60%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICOM Master Agreement [71; 69]</td>
<td>9%</td>
<td>17%</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>60%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>28%</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Other local standard terms [69; 72]</td>
<td>9%</td>
<td>6%</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>74%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9%</td>
<td>6%</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>68%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Master Agreement developed for your own institution [71; 69]</td>
<td>26%</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>49%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>23%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>52%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The counterparty's Master Agreement [73; 72]</td>
<td>29%</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>28%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>27%</td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>37%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key

<table>
<thead>
<tr>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 1% may not be shown.
In establishing Master Agreements with *end user* counterparties, how frequently do you use (or plan to use) the following? [Number of current and planned respondents indicated for each item]

<table>
<thead>
<tr>
<th>Master Agreement Details</th>
<th>Current Use</th>
<th>Sometimes Use</th>
<th>Rarely Use</th>
<th>Never Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISDA Master Agreement with little or no modification [76; 75]</td>
<td>53%</td>
<td>17%</td>
<td>22%</td>
<td>8%</td>
</tr>
<tr>
<td>ISDA Master Agreement with major modifications [70; 68]</td>
<td>30%</td>
<td>30%</td>
<td>24%</td>
<td>16%</td>
</tr>
<tr>
<td>AFMA modifications to ISDA Master Agreement [68; 66]</td>
<td>7%</td>
<td>87%</td>
<td>7%</td>
<td>87%</td>
</tr>
<tr>
<td>BBA standard terms [73; 69]</td>
<td>12%</td>
<td>10%</td>
<td>28%</td>
<td>50%</td>
</tr>
<tr>
<td>AFB standard items [70; 68]</td>
<td>9%</td>
<td>7%</td>
<td>22%</td>
<td>63%</td>
</tr>
<tr>
<td>German Master Agreement for swap transactions [70; 68]</td>
<td>9%</td>
<td>10%</td>
<td>17%</td>
<td>64%</td>
</tr>
<tr>
<td>ICOM Master Agreement [68; 67]</td>
<td>7%</td>
<td>11%</td>
<td>17%</td>
<td>66%</td>
</tr>
<tr>
<td>Other local standard terms [66; 66]</td>
<td>10%</td>
<td>5%</td>
<td>11%</td>
<td>73%</td>
</tr>
<tr>
<td>Master Agreement developed for your own institution [73; 72]</td>
<td>21%</td>
<td>33%</td>
<td>18%</td>
<td>29%</td>
</tr>
<tr>
<td>The counterparty’s Master Agreement [72; 70]</td>
<td>23%</td>
<td>37%</td>
<td>39%</td>
<td>45%</td>
</tr>
</tbody>
</table>

**Key**

- **Current**
- **Planned**

- **Frequently**
- **Sometimes**
- **Rarely**
- **Never**

*Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.*
If you use Master Agreements, what products or instruments are typically covered under a multi-product Master Agreement? [Current, 79 respondents; planned, 76 respondents]

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate derivatives, excluding FRAs</td>
<td>83%</td>
</tr>
<tr>
<td>Forward Rate Agreements</td>
<td>79%</td>
</tr>
<tr>
<td>Currency derivatives, excluding FX forwards and options</td>
<td>67%</td>
</tr>
<tr>
<td>Commodity derivatives</td>
<td>29%</td>
</tr>
<tr>
<td>Equity derivatives</td>
<td>29%</td>
</tr>
<tr>
<td>Multi Asset</td>
<td>25%</td>
</tr>
<tr>
<td>FX Forwards</td>
<td>20%</td>
</tr>
<tr>
<td>FX Options</td>
<td>18%</td>
</tr>
<tr>
<td>Spot FX</td>
<td>10%</td>
</tr>
</tbody>
</table>

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.5 How would you characterise the extent to which your derivatives transactions are documented under multi-product Master Agreements? [Current, 79 respondents; planned, 76 respondents]

- **Current**
  - Not at all: 11%
  - To a large extent: 41%
  - To a modest extent: 47%

- **Planned**
  - Not at all: 3%
  - To a large extent: 62%
  - To a modest extent: 36%

3.6 What difficulties, if any, are you experiencing in putting in place multi-product Master Agreements? [75 respondents]

- No difficulty: 9%
- Other difficulties: 16%
- Counterparty reluctance where documentation is already in place: 23%
- Counterparty reluctance for other reasons: 23%
- Internal resistance from some derivatives areas: 8%
- Internal inertia / reluctance where documentation is already in place: 20%

*Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.*
3.7 What proportion of your derivatives transactions include in the documentation provisions relating to the following? [Number of current and planned respondents indicated for each question]

### Credit Event upon Merger or Acquisition

<table>
<thead>
<tr>
<th></th>
<th>Current (%)</th>
<th>Planned (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Way (counterparty only) [54; 52]</td>
<td>30%</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>31%</td>
<td>31%</td>
</tr>
<tr>
<td>One Way (only you) [53; 50]</td>
<td>23%</td>
<td>74%</td>
</tr>
<tr>
<td></td>
<td>18%</td>
<td>78%</td>
</tr>
<tr>
<td>Two Way (both you and counterparty) [77; 74]</td>
<td>33%</td>
<td>51%</td>
</tr>
<tr>
<td></td>
<td>38%</td>
<td>51%</td>
</tr>
</tbody>
</table>

### Credit Event upon Downgrade

<table>
<thead>
<tr>
<th></th>
<th>Current (%)</th>
<th>Planned (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Way (counterparty only) [56; 53]</td>
<td>14%</td>
<td>36%</td>
</tr>
<tr>
<td></td>
<td>28%</td>
<td>25%</td>
</tr>
<tr>
<td>One Way (only you) [55; 52]</td>
<td>16%</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>12%</td>
<td>83%</td>
</tr>
<tr>
<td>Two Way (both you and counterparty) [73; 71]</td>
<td>12%</td>
<td>29%</td>
</tr>
<tr>
<td></td>
<td>11%</td>
<td>31%</td>
</tr>
</tbody>
</table>

### Cross Default

<table>
<thead>
<tr>
<th></th>
<th>Current (%)</th>
<th>Planned (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Way (counterparty only) [56; 53]</td>
<td>34%</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>38%</td>
<td>23%</td>
</tr>
<tr>
<td>One Way (only you) [56; 53]</td>
<td>16%</td>
<td>77%</td>
</tr>
<tr>
<td></td>
<td>11%</td>
<td>81%</td>
</tr>
<tr>
<td>Two Way (both you and counterparty) [78; 74]</td>
<td>35%</td>
<td>51%</td>
</tr>
<tr>
<td></td>
<td>39%</td>
<td>51%</td>
</tr>
</tbody>
</table>

### Key
- **Current:**
  - All
  - Most
  - Some
  - Few
  - None

- **Planned:**
  - All
  - Most
  - Some
  - Few
  - None

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.7 (Continued) What proportion of your derivatives transactions include in the documentation provisions relating to the following? [Number of respondents indicated for each question]

**Cross Acceleration**

| One Way (counterparty only) [54; 51] | 9% | 43% | 48% |
| One Way (only you) [53; 50] | 19% | 81% |
| Two Way (both you and counterparty) [70; 69] | 17% | 30% | 10% | 21% | 21% |

**Key**

<table>
<thead>
<tr>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>Most</td>
</tr>
</tbody>
</table>
3.8 Please indicate the frequency of delays in signing transaction documentation, as measured by the length of time from the trade date to signature of the agreement. [Number of respondents indicated for each time period]

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Normal</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 6 months</td>
<td>5%</td>
<td>29%</td>
<td>48%</td>
<td>18%</td>
</tr>
<tr>
<td>3–6 months</td>
<td>15%</td>
<td>44%</td>
<td>35%</td>
<td>6%</td>
</tr>
<tr>
<td>1–3 months</td>
<td>36%</td>
<td>39%</td>
<td>17%</td>
<td>8%</td>
</tr>
<tr>
<td>15–30 days</td>
<td>17%</td>
<td>50%</td>
<td>28%</td>
<td>5%</td>
</tr>
<tr>
<td>2–15 days</td>
<td>35%</td>
<td>18%</td>
<td>33%</td>
<td>14%</td>
</tr>
<tr>
<td>Less than 48 hours</td>
<td>16%</td>
<td>19%</td>
<td>34%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Key
- Normal
- Sometimes
- Rarely
- Never

3.9 What is the longest transaction signing delay (from trade date) currently outstanding at your institution for a transaction which has yet to be signed? [71 respondents]

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 6 months</td>
<td>23%</td>
</tr>
<tr>
<td>6–12 months</td>
<td>23%</td>
</tr>
<tr>
<td>More than 12 months</td>
<td>55%</td>
</tr>
</tbody>
</table>

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
### 3.10 How quickly do you send initial telex or fax confirmation of trades? [Number of respondents indicated for each time period]

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Normal</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same day [76]</td>
<td>71%</td>
<td>18%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Next day [78]</td>
<td>33%</td>
<td>58%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Within 48 hours [72]</td>
<td>7%</td>
<td>41%</td>
<td>39%</td>
<td>14%</td>
</tr>
<tr>
<td>3–7 days [72]</td>
<td>41%</td>
<td>50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>More than 7 days [74]</td>
<td>22%</td>
<td>77%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Key**
- Normal
- Sometimes
- Rarely
- Never

### 3.11 How quickly do you receive initial telex or fax confirmation of trades from dealers? [Number of respondents indicated for each time period]

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Normal</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same day [75]</td>
<td>39%</td>
<td>32%</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>Next day [77]</td>
<td>36%</td>
<td>55%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Within 48 hours [75]</td>
<td>29%</td>
<td>44%</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>3–7 days [73]</td>
<td>16%</td>
<td>21%</td>
<td>48%</td>
<td>15%</td>
</tr>
<tr>
<td>More than 7 days [71]</td>
<td>17%</td>
<td>42%</td>
<td>38%</td>
<td></td>
</tr>
</tbody>
</table>

**Key**
- Normal
- Sometimes
- Rarely
- Never

*Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.*
### 3.12
How quickly do you receive initial telex or fax confirmation of trades from end users? [Number of respondents indicated for each time period]

<table>
<thead>
<tr>
<th>Time Period</th>
<th>25%</th>
<th>21%</th>
<th>34%</th>
<th>21%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same day [68]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Next day [72]</td>
<td>28%</td>
<td>32%</td>
<td>28%</td>
<td>13%</td>
</tr>
<tr>
<td>Within 48 hours [69]</td>
<td>16%</td>
<td>54%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>3-7 days [69]</td>
<td>20%</td>
<td>35%</td>
<td>26%</td>
<td>19%</td>
</tr>
<tr>
<td>More than 7 days [68]</td>
<td>15%</td>
<td>16%</td>
<td>41%</td>
<td>28%</td>
</tr>
</tbody>
</table>

**Key**
- Normal
- Sometimes
- Rarely
- Never

### 3.13
If you use Master Agreements, what type of final confirmations do you use for individual transactions under the Master Agreements? [74 respondents; percentage of respondents replying in each band]

<table>
<thead>
<tr>
<th>Confirmation Type</th>
<th>7%</th>
<th>9%</th>
<th>11%</th>
<th>68%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telex confirmation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fax confirmation</td>
<td>20%</td>
<td>14%</td>
<td>10%</td>
<td>16%</td>
</tr>
<tr>
<td>Mail confirmation</td>
<td>52%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

**Key**
- 81-100%
- 61-80%
- 41-60%
- 21-40%
- 0-20%

For example, 68% of respondents use telex confirmation between 0 and 20% of the time.

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.14 How would you characterise your documentation backlog? [78 respondents]

Severe Backlog
- Getting worse: 0%
- Same: 4%
- Getting better: 5%

Moderate Backlog
- Getting worse: 4%
- Same: 19%
- Getting better: 50%

Minimal Backlog
- Getting worse: 0%
- Same: 6%
- Getting better: 12%

3.15 Indicate the proportion of Master Agreements outstanding (i.e., not yet signed) with clients/countparties with whom you have dealt, expressed as a percentage of the total number of Master Agreements. Graph shows percentage of respondents with less than the given proportion of Master Agreements outstanding. [77 respondents]

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Specific Conditions in Legal Agreements

3.16 Rank the governing law you use from most frequently (1) to least frequently (4) for documentation? [Number of respondents indicated for each type; average of responses]

- English law [77] 1.57
- U.S. law [71] 1.86
- Own national law [52] 1.98
- Other law [23] 3.65

Least Frequent

4 3 2 1 Most Frequent

3.17 Do you require limited two-way payments or full two-way payments on early termination? [76 respondents]

- Limited 40%
- Full 60%

With Dealers

- Limited 47%
- Full 53%

With End-Users

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.18 If you use full two-way payments on early termination, do you typically add a set-off clause to your Master Agreements? [64 respondents]

Yes 71%
No 29%

3.19 Do you contract yourself as... [80 respondents]

- Single-location entity 36%
- Multi-branch party 54%
- No consistent approach 10%

3.20 If you contract as a multi-branch party, do you typically give a representation to the effect that your obligations are the same as if you had entered into the transaction through your home/head office? [55 respondents]

Yes 63%
No 37%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.21 Do you typically allow your counterparties to contract as a multi-branch party? [78 respondents]

- Only if they insist: 5%
- Open minded: 90%
- No: 5%

3.22 If you allow your counterparty to contract as a multi-branch party, do you typically receive the representation set out in 3.2? [76 respondents]

- Yes: 73%
- No: 27%

3.23 Are there counterparty jurisdictions that cause you significant concerns? [76 respondents]

- Yes: 53%
- No: 47%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.24 Indicate the extent of your concern over the enforceability of transactions with the following types of counterparties. [Number of respondents is indicated for each type]

- Sovereigns [78]
  - Serious Concern: 10%
  - Some Concern: 34%
  - Little Concern: 45%
  - Not Relevant: 10%

- Municipalities/ regional authorities [78]
  - Serious Concern: 42%
  - Some Concern: 37%
  - Little Concern: 11%
  - Not Relevant: 8%

- Insurance companies [78]
  - Serious Concern: 50%
  - Some Concern: 37%
  - Little Concern: 8%

- Pension funds [78]
  - Serious Concern: 9%
  - Some Concern: 53%
  - Little Concern: 27%
  - Not Relevant: 11%

- Unit trusts/mutual funds/fund managers [78]
  - Serious Concern: 8%
  - Some Concern: 55%
  - Little Concern: 26%
  - Not Relevant: 11%

Key
- Serious Concern
- Some Concern
- Little Concern
- Not Relevant

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
In situations where a derivatives transaction is completed in connection with an underlying capital market transaction (financing or investment), what is your policy with respect to giving a counterparty the right to cancel a derivatives transaction without close-out settlement if the capital market transaction fails to close? [Current, 74 respondents; planned, 73 respondents]

Absolute reject any linkage 41%
Accept linkage if you are the arranger of the capital market transaction for the counterparty 28%
Accept linkage under some risk sharing arrangement 11%
Accept linkage under other circumstances or conditions 20%

Key

Current
Planned
Section 4  Counterparty Risk

Counterparty Risk Measurement for Individual Transactions

4.1 How do you measure the exposure of an individual transaction? [Current, 79 respondents; planned, 77 respondents]

- BIS original exposure method 23%
- BIS current exposure method 10%
- Own method based on worst case scenarios using historical volatility measures applied to each new transaction 24%
- Own method relying on exposure tables for generic transactions developed from worst case scenarios using historical volatility measures 27%
- Best guess based on subjective judgment 9%
- Approach used varies significantly according to product 9%
- Other method 17%

Key

Current

Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.2 If your answer to Question 4.1 is ‘own method…’ what factors would affect your calculation of the potential exposure component? [Current, 53 respondents; planned, 56 respondents]

- Original maturity: 44% Current, 23% Planned
- Residual maturity: 85% Current, 82% Planned
- Currency (e.g., US$ interest rate swap vs DM interest rate swap): 81% Current, 77% Planned
- Equity index (e.g., Nikkei linked swap vs S&P linked swap): 45% Current, 54% Planned
- Commodity (e.g., WTI crude swap vs heating oil swap): 38% Current, 43% Planned
- Cash flow structure: 66% Current, 68% Planned
- Correlation between two variables (e.g., on basis or currency swap): 45% Current, 54% Planned
- Strike price (options): 68% Current, 75% Planned
- Volatility of underlying asset (options): 64% Current, 77% Planned
- Paying vs receiving (asymmetry of forward rates): 45% Current, 61% Planned
- Other: 11% Current, 13% Planned

Key: Current, Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.3 Indicate the credit exposure you would initially allocate or impute to the following individual transactions undertaken on 18 January 1993 (assume all transactions are at current market prices and standard cash flow structures). [Number of respondents indicated for each transaction type and maturity; average of responses in $ thousands]

US$ interest rate swap: US$10 million paying fixed semi-annually receiving 6-month LIBOR semi-annually.

US$ 10 million interest rate cap purchased with a strike equal to current 3-month LIBOR.

US Dollar/Deutsche mark cross currency swap: US$ 10 million paying fixed US$ receiving fixed DEM (both annual).

WTI crude swap US$ 10 million (equivalent) paying fixed receiving floating (both quarterly).

S&P 100 index swap US$10 million paying fixed, receiving floating both at quarterly intervals.

Currency option (European) purchased (over-the-counter) US$/DEM US $10 million with strike equal to the forward rate, buy US$/sell DEM.

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.4 How regularly do you review the parameters used to estimate potential exposure? [Current, 77 respondents; planned, 76 respondents]

- At least monthly: 14% (Current) 21% (Planned)
- At least quarterly: 9% (Current) 14% (Planned)
- At least half yearly: 5% (Current) 7% (Planned)
- At least annually: 26% (Current) 34% (Planned)
- Ad hoc: 24% (Current) 45% (Planned)

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.5 For the purposes of consolidating counterparty exposures arising from derivative products, what is the highest level at which exposure is aggregated? [Current, 78 respondents; planned, 77 respondents]

**By product**

- Across all products (derivatives and cash) across all business units:
  - Current: 48%
  - Planned: 75%
- Across derivatives products across all business units:
  - Current: 13%
  - Planned: 18%
- Across products within a business unit (e.g., Equities Division) combining with exposures on cash market products:
  - Current: 10%
  - Planned: 5%
- Across products within a derivatives category (e.g., equity derivatives):
  - Current: 17%
  - Planned: 9%
- By product:
  - Current: 17%
  - Planned: 1%

**By location**

- Across all of your dealing locations:
  - Current: 65%
  - Planned: 83%
- By location:
  - Current: 33%
  - Planned: 20%

**Key**

- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.6 Which phrase best describes how you calculate the aggregate exposures of outstanding derivatives transactions with a counterparty? [Current, 79 respondents; planned, 76 respondents]

<table>
<thead>
<tr>
<th>Option</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summing the exposures of each transaction as originally calculated</td>
<td>35%</td>
<td>18%</td>
</tr>
<tr>
<td>Summing the exposures of each transaction based on prevailing factors and market levels</td>
<td>28%</td>
<td>18%</td>
</tr>
<tr>
<td>Summing the current exposures only of each transaction on a gross basis</td>
<td>20%</td>
<td>17%</td>
</tr>
<tr>
<td>Summing the current exposures only of each transaction on a net basis</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Summing the current exposures only of each transaction on a net basis and multiplying by a factor such that the result approximates the aggregate potential exposure on a portfolio basis</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>Summing the current and potential exposures of each transaction on a net basis</td>
<td>10%</td>
<td>24%</td>
</tr>
<tr>
<td>Treating all nettable transactions with a counterparty as a single transaction and calculating an aggregate exposure</td>
<td>9%</td>
<td>26%</td>
</tr>
<tr>
<td>Other method</td>
<td>10%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Key

<table>
<thead>
<tr>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
</table>

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
### Derivatives: Practices and Principles

#### Dealer Survey Results

<table>
<thead>
<tr>
<th>Question</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.7 If you replied in one of the final three categories in the previous question, which of the following netting methods do you use or plan to use? [Current, 17 respondents; planned, 41 respondents]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sum of the net values (by counterparty) but not less than zero</td>
<td>41%</td>
<td>32%</td>
</tr>
<tr>
<td>Sum of net values (by counterparty) with any net negative value applied against potential exposure</td>
<td>29%</td>
<td>51%</td>
</tr>
<tr>
<td>Other</td>
<td>29%</td>
<td>17%</td>
</tr>
</tbody>
</table>

**Key**
- Current
- Planned

<table>
<thead>
<tr>
<th>Question</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.8 What is the minimum frequency with which you monitor your derivatives exposure to counterparties against limits? [Current, 79 respondents; planned, 77 respondents]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intraday, on-line</td>
<td>30%</td>
<td>53%</td>
</tr>
<tr>
<td>Overnight reporting</td>
<td>46%</td>
<td>35%</td>
</tr>
<tr>
<td>Weekly</td>
<td>13%</td>
<td>8%</td>
</tr>
<tr>
<td>Monthly</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Quarterly or less frequently</td>
<td>3%</td>
<td>1%</td>
</tr>
</tbody>
</table>

**Key**
- Current
- Planned

*Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.*
4.9 Do you have the capacity to review derivatives exposure on an as needed basis during intervals between reporting periods? [76 respondents]

Yes 87%
No 13%

Counterparty Risk Limits

4.10 On what basis do you calculate credit limit utilization on a portfolio of derivatives transactions with a single counterparty? [Current, 78 respondents; planned, 77 respondents]

On a net basis
- 5%
- 20%

On a gross basis (no netting)
- 60%
- 23%

On both net and gross bases
- 35%
- 57%

Key
Current
Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.11 Do your systems take into account the relevant terms and conditions contained in the legal documentation for each transaction when netting credit exposure? [Current, 75 respondents; planned, 73 respondents]

Current
- Yes: 28%
- No: 72%

Planned
- Yes: 78%
- No: 22%

4.12 What best describes your current procedures when your counterparty risk limit is reached and it is inappropriate to increase this limit? [Current exposure, 64 respondents; current & potential exposure, 63 respondents]

- No new transactions: 50% (current) 48% (potential)
- No new transactions except those that offset or reduce risk through netting: 52% (current) 51% (potential)
- Negotiate early termination or assignments: 52% (current) 60% (potential)
- Negotiate collateral arrangements: 28% (current) 38% (potential)
- Increased scrutiny of any new transactions: 13% (current) 25% (potential)

Key
- Dark grey: Aggregate current exposure exceeds limit
- Light grey: Aggregate current and potential exposure exceeds limit

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Credit Spread and Reserves

4.13 On what basis do you calculate a credit provision or margin to accrue in respect of unearned credit spread over the life of transactions? [Current, 65 respondents; planned, 66 respondents]

- On a transaction by transaction basis: 60% (Current) vs. 53% (Planned)
- On a counterparty by counterparty basis: 22% (Current) vs. 39% (Planned)
- On a total portfolio basis: 15% (Current) vs. 14% (Planned)
- Other method: 8% (Current) vs. 6% (Planned)

Key: Current [ ], Planned [ ]

4.14 If you answered ‘On a transaction by transaction basis’ in question 4.13, what margin/spread do you accrue? [Current, 37 respondents; planned, 39 respondents]

- Margin based on notional amount: 62% (Current) vs. 39% (Planned)
- Margin based on current exposure: 8% (Current) vs. 8% (Planned)
- Margin based on current and potential exposure: 30% (Current) vs. 56% (Planned)

Key: Current [ ], Planned [ ]

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 1% may not be shown.
4.15 If you answered ‘On a counterparty by counterparty basis,’ ‘On a portfolio basis,’ or ‘Other method’ to question 4.13, what margin or spread do you accrue? [Current, 27 respondents; planned, 34 respondents]

Do you take into account the relative credit quality or rating of the counterparty(ies) in determining the margin? [37 respondents]

Yes 78%
No 22%

Key
Current
Planned

4.16 What adjustment do you make over time to this provision for unearned credit spread? [Calculated as percent of sample]

Key
Current
Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.17 Do you establish reserves for potential credit losses in addition to the provision for credit spread? [Current, 76 respondents; planned, 73 respondents]

<table>
<thead>
<tr>
<th>Yes, as a general reserve</th>
<th>41%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, against specific probable losses</td>
<td>26%</td>
</tr>
<tr>
<td>No</td>
<td>33%</td>
</tr>
</tbody>
</table>

Key
- Current
- Planned

4.18 What forms of credit enhancement do you accept (or plan to accept) for over-the-counter derivatives transactions? [Current, 75 respondents; planned, 74 respondents]

<table>
<thead>
<tr>
<th>Cash collateral</th>
<th>65%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities collateral</td>
<td>71%</td>
</tr>
<tr>
<td>Third party guarantee or enhancement</td>
<td>84%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
</tr>
<tr>
<td>None</td>
<td>9%</td>
</tr>
</tbody>
</table>

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.19 What forms of credit enhancement are you prepared to provide (or plan to provide) to at least some (not necessarily all) counterparties on over-the-counter derivatives business? [Current, 77 respondents; planned, 76 respondents]

<table>
<thead>
<tr>
<th>Form of Credit Enhancement</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash collateral</td>
<td>31%</td>
<td>38%</td>
</tr>
<tr>
<td>Securities collateral</td>
<td>36%</td>
<td>45%</td>
</tr>
<tr>
<td>Third party guarantee or enhancement</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>None</td>
<td>49%</td>
<td>40%</td>
</tr>
</tbody>
</table>

4.20 If you have answered 'Cash collateral' or 'Securities collateral' in 4.18 and 4.19, which of the following methods would you typically settle on? [Current, 55 respondents; planned, 59 respondents]

<table>
<thead>
<tr>
<th>Method</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fix the collateral amount in advance for the life of the transaction</td>
<td>22%</td>
<td>10%</td>
</tr>
<tr>
<td>Vary the collateral amount according to the level of current exposure</td>
<td>64%</td>
<td>59%</td>
</tr>
<tr>
<td>Vary the collateral amount according to the level of current and potential exposure</td>
<td>27%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Key

Current

Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.21 If you have answered ‘Cash collateral’ or ‘Securities collateral’ in 4.18 or 4.19, who sets the collateral amounts to be posted by you or your counterparty? [Current, 60 respondents; planned, 61 respondents]

- You: 72% (planned: 74%)
- Your counterparty: 8% (planned: 5%)
- The party that is owed collateral: 13% (planned: 15%)
- Independent third party: 7% (planned: 8%)
- Other: 13% (planned: 12%)

Key: Current, Planned

4.22 To what extent do you require some form of credit enhancement according to the quality of your counterparties? [Current, 79 respondents; planned, 76 respondents]

- All counterparties: 3% (planned: 3%)
- All AA or lower: 0% (planned: 0%)
- All A or lower: 0% (planned: 0%)
- All BBB or lower: 4% (planned: 7%)
- Case by case: 76% (planned: 75%)
- None—we do not deal with counterparties below a certain credit rating: 18% (planned: 16%)

Key: Current, Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.23 If you require some form of credit enhancement based on the credit rating of your counterparty, do you provide in your counterparty contracts for changes to the credit enhancements required should the credit rating of the counterparty be changed? [Current, 64 respondents; planned, 63 respondents]

- Yes, if downgraded: 14% (Current) and 18% (Planned)
- Yes, for both downgrading and upgrading: 11% (Current) and 14% (Planned)
- Occasionally negotiated for downgrading: 41% (Current) and 44% (Planned)
- Rarely or never: 34% (Current) and 24% (Planned)

Key
- Current
- Planned

4.24 Please indicate the approximate aggregate value of collateral held by you at 31 December 1992, as a percentage of your aggregate exposure to counterparties on derivatives transactions. [74 respondents]

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5%</td>
<td>86%</td>
</tr>
<tr>
<td>5-10%</td>
<td>8%</td>
</tr>
<tr>
<td>10-15%</td>
<td>1%</td>
</tr>
<tr>
<td>15-20%</td>
<td>3%</td>
</tr>
<tr>
<td>More than 20%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.25 Please indicate the approximate aggregate value of collateral given by you at 31 December 1992, as a percentage of your counterparties' aggregate exposure to you. [72 respondents]

<table>
<thead>
<tr>
<th>Percentage Range</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5%</td>
<td></td>
<td>94%</td>
</tr>
<tr>
<td>5-10%</td>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>10-15%</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>15-20%</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>More than 20%</td>
<td></td>
<td>1%</td>
</tr>
</tbody>
</table>

4.26 In relation to your outstanding derivatives portfolio across all products as of 31 December 1992 (or as close as possible), indicate the approximate percentage of the total (current and potential) counterparty exposure against each of the following bands of long-term credit ratings, taking any credit enhancements into account. Response indicates the average percentage for each rating and a breakdown of each rating by type of counterparty. [Numbers in brackets indicate number of respondents]

**Total by credit rating**

- AAA [42] 18%
- AA+ to AA− [42] 33%
- A+ to A− [42] 26%
- BBB+ to BBB− [41] 11%
- BB+ to BB− [42] 5%
- Below BB− or unrated [41] 8%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.26  (Continued) [Respondents given in brackets after each category]

Breakdown within credit rating

<table>
<thead>
<tr>
<th>Rating</th>
<th>Corporate</th>
<th>Financial</th>
<th>Government/Supranational</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA [42]</td>
<td>10%</td>
<td>65%</td>
<td>26%</td>
</tr>
<tr>
<td>AA+ to AA− [42]</td>
<td>14%</td>
<td>82%</td>
<td></td>
</tr>
<tr>
<td>A+ to A− [42]</td>
<td>29%</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>BBB+ to BBB− [41]</td>
<td>29%</td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>BB+ to BB− [42]</td>
<td>37%</td>
<td>62%</td>
<td></td>
</tr>
<tr>
<td>Below BB− or unrated [41]</td>
<td>60%</td>
<td>39%</td>
<td></td>
</tr>
</tbody>
</table>

Key

Corporate

Financial

Government/Supranational

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.27 What percentage of your total counterparty exposure in your derivatives activities is represented by your 10 largest counterparty exposures? [46 respondents]

- Gross Basis: 27.9%
- Net Basis: 28.7%

Credit Management Process

4.28 Regarding the accessibility of information on credit availability for a new derivatives transaction with a counterparty for whom you have assigned a limit, which phrase most clearly describes your position? [Current, 80 respondents; planned, 77 respondents]

- On-line credit limits for most counterparties at trader's workstation: 48%
- Referral needed on some counterparties or for excesses: 80%
- Paper-based credit limit information available on most counterparties in dealing room. Referral needed on some counterparties or for excesses: 48%
- 16%
- Dedicated credit officer to provide information required: 14%
- 9%
- Limited credit information or support in dealing room. Most transactions need to be referred individually to credit management (outside the dealing room) or the relationship officer: 6%
- 4%

Key

- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.29 How well do your current information systems support credit risk management in your derivatives business? [Current, 79 respondents; planned, 77 respondents]

- Our credit systems are well adapted to derivatives and integrated with on-balance-sheet credit risk systems: 34% (Current), 74% (Planned)
- Our credit systems are well adapted to derivatives but not integrated with on-balance-sheet credit risk systems: 38% (Current), 17% (Planned)
- Our credit risk systems do not cater for derivatives business and therefore considerable manual effort is required both to set up limits and monitor exposures: 23% (Current), 8% (Planned)
- Our credit risk systems are designed for on-balance-sheet products, but our derivatives business is low volume and relatively simple with little complexity. The investment in more sophisticated systems is therefore not necessary, and a manual approach is sufficient: 5% (Current), 1% (Planned)

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Section 5

Valuation and Market Risk Management

Position Valuation

5.1 For management accounting of your trading and/or dealing activities in derivatives, which phrase best describes how you report the market value of your portfolio? [Current, 80 respondents; planned, 76 respondents]

For external reporting, how do you report the market value of your portfolio for your trading and/or dealing activities in derivatives? [Current, 78 respondents; planned, 75 respondents]

Key

Current

Planned
5.2 If you use, or plan to use, mark to market valuation, how do you compute mark-to-market? [78 respondents]

- Using mid-market values without adjustments
  - Current: 49%
  - Planned: 48%

- Using relevant bid or offered price on a gross basis
  - Current: 10%
  - Planned: 14%

- Using relevant bid or offered price on a net (portfolio) basis
  - Current: 10%
  - Planned: 10%

- Using mid market values with adjustments
  - Current: 37%
  - Planned: 44%

- Other
  - Current: 1%
  - Planned: 0%

5.3 If you use bid/offer prices, which of the following do you do? [Current, 20 respondents; planned, 19 respondents]

- Use generic bid/offer quotations without adjustments
  - Current: 32%
  - Planned: 30%

- Make adjustments for odd cash flows using a derived zero-coupon curve
  - Current: 45%
  - Planned: 42%

- Make adjustments to reflect borrowing and lending rates for in- or out-of-the-money positions and odd cash flows
  - Current: 30%
  - Planned: 32%

- Make adjustments for the credit quality of counterparties
  - Current: 21%
  - Planned: 15%

- Make adjustments for changes in the liquidity of particular instruments
  - Current: 37%
  - Planned: 30%

- Make other adjustments
  - Current: 16%
  - Planned: 15%

Key

Current
Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
If you use mid-market values with adjustments, which of the following adjustments do you use? [Current, 34 respondents; planned, 36 respondents]

- Adjustments for odd cash-flows using a derived mid-market zero-coupon curve: Current 41%, Planned 33%
- Provision/margin for unearned credit spread, as discussed under 4.13 above: Current 44%, Planned 56%
- Reserve for potential credit losses, as discussed under 4.17 above: Current 44%, Planned 47%
- Adjustments to reflect borrowing and lending rates for in- or out-of-the-money positions and odd cashflows: Current 15%, Planned 22%
- Provision for future hedging costs (portfolio rebalances): Current 38%, Planned 30%
- Provision for future administration costs: Current 69%, Planned 61%
- Provision for current close-out costs of net open positions: Current 27%, Planned 20%
- Other adjustments: Current 6%, Planned 8%

Key
- Current
- Planned

If your institution is also an end-user of derivatives, please indicate how you value derivatives positions used to hedge risk or to change the risk profile (e.g., in asset/liability management) of your institution, for management (not accounting) purposes. [Current, 71 respondents; planned, 69 respondents]

- Marked to market always: Current 40%, Planned 39%
- Valued on same basis as position being hedged: Current 54%, Planned 52%
- Accruals basis always: Current 18%, Planned 15%
- No consistent approach: Current 3%, Planned 0%
- Other: Current 7%, Planned 6%

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Measuring Market Risk

5.6 Which phrase best describes how you measure and determine limits for market risk? [Current, 80 respondents; planned, 75 respondents]

- Amount at risk based on specified valuation models using confidence intervals
- Maximum loss for specified scenario (e.g., 10 basis point increase/decrease in interest rates)
- Maximum notional amount expressed as an equivalent across a group of instruments (e.g., US$ 60 million 10-year equivalent delta-adjusted position)
- Maximum notional amount of aggregated positions in a specified product (e.g., notional amount of outstanding interest rate swaps)
- Other

Key
- Current
- Planned

5.7 If you selected the first response in 5.6, please indicate the following:

**Confidence Intervals** [28 respondents]

- 95.0%: 64%
- 97.5%: 7%
- 99.0%: 29%

**“At Risk” Horizons** [21 respondents]

- Less than 1 day: 19%
- 1-2 days: 28%
- 3-7 days: 14%
- 1-2 weeks: 10%
- 2-3 weeks: 0%
- 3-4 weeks: 14%
- Greater than 1 month: 14%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
5.8  Which of the following risk parameters do you consider in measuring market risk in derivatives? [Current, 79 respondents; planned, 80 respondents]

- Absolute rate/price (delta) 100% 100%
- Convexity (gamma) 80% 90%
- Basis/correlation 66% 79%
- Volatility (vega/kappa) 84% 96%
- Time decay (theta) 62% 71%
- Term structure 76% 79%
- Cash/funding position 55% 58%

**Key**
- Current
- Planned

5.9  To what extent have you applied the risk management technology developed for longer-term derivative products to improve the management of market risk on short-dated derivatives, notably currency options? [Current, 75 respondents; planned, 74 respondents]

- Extensively 27% 37%
- To some degree 37% 51%
- To little or no degree 12% 36%

**Key**
- Current
- Planned

*Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.*
### 5.10
To what extent do you test the impact of crash or shock scenarios on your derivatives portfolios? [Current, 80 respondents; planned, 79 respondents]

<table>
<thead>
<tr>
<th>Test Approach</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Each portfolio and overall portfolio regularly tested on multiple scenarios</td>
<td>16%</td>
<td>37%</td>
</tr>
<tr>
<td>Each portfolio regularly tested on multiple scenarios</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Portfolio regularly tested on single scenario</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crash scenario rarely or not used</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Key**
- Current
- Planned

### 5.11
How do you take into account factors such as potential liquidity of a product or large positions in a particular product? [Current, 80 respondents; planned, 76 respondents]

<table>
<thead>
<tr>
<th>Consideration</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measured in valuation models by adjusting the “at risk” time horizon or other assumptions</td>
<td>5%</td>
<td>17%</td>
</tr>
<tr>
<td>Implicitly considered in setting limits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Considered on a case-by-case basis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not considered</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
<td>4%</td>
</tr>
</tbody>
</table>

**Key**
- Current
- Planned

*Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.*
5.12 What is the lowest organizational level to which market risk limits are allocated in your derivatives business? [Current, 80 respondents; planned, 75 respondents]

- Aggregate risk limit across all dealing activities: 3% (Current), 4% (Planned)
- Risk limit for each business unit (e.g., Equity Division): 18% (Current), 23% (Planned)
- Risk limits by derivative category (e.g., commodity swaps): 39% (Current), 40% (Planned)
- Risk limits by trader: 41% (Current), 41% (Planned)

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
5.13 If you have suffered significant (negative) variance from expectations of profit/loss on a derivative product in a specific trading period for reasons unrelated to counterparty risk, please indicate the factors you believe were responsible. [69 respondents]

<table>
<thead>
<tr>
<th>Factor</th>
<th>Primary Factor</th>
<th>Secondary Factor</th>
<th>Not Relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discontinuity in the market (e.g., crash of 1987)</td>
<td>48%</td>
<td>13%</td>
<td>22%</td>
</tr>
<tr>
<td>Illiquidity of instrument</td>
<td>32%</td>
<td>33%</td>
<td>16%</td>
</tr>
<tr>
<td>Inexperienced trader</td>
<td>23%</td>
<td>32%</td>
<td>16%</td>
</tr>
<tr>
<td>Error in the input assumptions in the pricing/risk management model used</td>
<td>15%</td>
<td>22%</td>
<td>32%</td>
</tr>
<tr>
<td>Trader exceeding authorized limits</td>
<td>12%</td>
<td>15%</td>
<td>39%</td>
</tr>
<tr>
<td>Error in the algorithms in the pricing/risk management model used</td>
<td>7%</td>
<td>15%</td>
<td>39%</td>
</tr>
<tr>
<td>Programming error or bug in the pricing/risk management model used</td>
<td>17%</td>
<td></td>
<td>39%</td>
</tr>
<tr>
<td>Systems failure</td>
<td>16%</td>
<td>42%</td>
<td></td>
</tr>
</tbody>
</table>

Key:
- Primary factor
- Secondary factor
- Not relevant

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
In aggregating market risk within derivative products areas, to what extent do you take into account the correlation between markets in offsetting market risk? For example, the interest rate risk in one currency may be assumed to be reduced by an offsetting interest rate position in a highly correlated currency.

<table>
<thead>
<tr>
<th>Interest rate risk</th>
<th>Current, 80 respondents; planned, 76 respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offset used at senior level in risk aggregation</td>
<td>30% 43%</td>
</tr>
<tr>
<td>Offset allowed at desk/trader level in aggregating risk</td>
<td>23% 31%</td>
</tr>
<tr>
<td>Used informally but offset not allowed in reporting market risk</td>
<td>18% 26%</td>
</tr>
<tr>
<td>Separate limits established</td>
<td>24% 34%</td>
</tr>
<tr>
<td>Not used</td>
<td>14% 20%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Currency risk</th>
<th>Current, 78 respondents; planned, 75 respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offset used at senior level in risk aggregation</td>
<td>26% 39%</td>
</tr>
<tr>
<td>Offset allowed at desk/trader level in aggregating risk</td>
<td>25% 26%</td>
</tr>
<tr>
<td>Used informally but offset not allowed in reporting market risk</td>
<td>16% 21%</td>
</tr>
<tr>
<td>Separate limits established</td>
<td>21% 26%</td>
</tr>
<tr>
<td>Not used</td>
<td>19% 23%</td>
</tr>
</tbody>
</table>

Key

<table>
<thead>
<tr>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
</table>

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
5.14  (Continued)

**Commodity risk**

- Offset used at senior level in risk aggregation: [Current, 40 respondents; planned, 39 respondents]
  - Current: 9%
  - Planned: 13%

- Offset allowed at desk/trader level in aggregating risk: 8%
  - Current: 10%

- Used informally but offset not allowed in reporting market risk: 8%
  - Current: 5%

- Separate limits established: 14%
  - Current: 13%

- Not used: 21%
  - Current: 19%

**Equity risk**

- Offset used at senior level in risk aggregation: 10%
  - Current: 16%

- Offset allowed at desk/trader level in aggregating risk: 13%
  - Current: 19%

- Used informally but offset not allowed in reporting market risk: 10%
  - Current: 6%

- Separate limits established: 20%
  - Current: 18%

- Not used: 19%
  - Current: 14%

**Key**

- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Market Risk Management Function

5.15 Do you have or do you plan to have a risk management function formally established which is independent of the trading or market making activity in derivatives? [80 respondents]

- Yes, already established: 79%
- Yes, we plan to establish within next 18 months: 13%
- No plans to establish a separate function: 9%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
5.16 Where are the following activities performed? [Number of respondents is indicated for each category in the key below]

<table>
<thead>
<tr>
<th>Activity</th>
<th>Within trading area [79]</th>
<th>Independent risk management function [74]</th>
<th>Senior management [79]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of large or complex deals</td>
<td>76%</td>
<td>54%</td>
<td>55%</td>
</tr>
<tr>
<td>Monitoring of excesses against limits</td>
<td>84%</td>
<td>57%</td>
<td></td>
</tr>
<tr>
<td>Maintenance of pricing and valuation models and algorithms</td>
<td>65%</td>
<td>62%</td>
<td>8%</td>
</tr>
<tr>
<td>Maintenance of statistical databases</td>
<td>61%</td>
<td>63%</td>
<td></td>
</tr>
<tr>
<td>Proposing new risk measures</td>
<td>72%</td>
<td>38%</td>
<td>55%</td>
</tr>
<tr>
<td>Authorization of limits</td>
<td>91%</td>
<td>45%</td>
<td>5%</td>
</tr>
<tr>
<td>Authorization of transactions</td>
<td>68%</td>
<td>63%</td>
<td>34%</td>
</tr>
<tr>
<td>Authorization of risk measures</td>
<td>84%</td>
<td>60%</td>
<td>14%</td>
</tr>
<tr>
<td>Generation of portfolio valuations.</td>
<td>78%</td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>Setting of risk/return targets</td>
<td>87%</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>Calculation of capital required</td>
<td>76%</td>
<td>43%</td>
<td>23%</td>
</tr>
<tr>
<td>Pricing of deals</td>
<td>99%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Taking strategic risk positions</td>
<td>71%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Hedging of firm’s overall position</td>
<td>71%</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>Approving trading in new products or instruments</td>
<td>94%</td>
<td>19%</td>
<td></td>
</tr>
</tbody>
</table>

Key

- Dark grey: Within trading area [79]
- Light grey: Independent risk management function [74]
- Light grey: Senior management [79]

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
### Market Risk Information

5.17 Indicate the minimum frequency of generation of the following risk information. [Number of current and planned respondents are indicated for each topic]

**Market Risk**

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute rate/price (delta) [79; 75]</td>
<td>94%</td>
<td>98%</td>
</tr>
<tr>
<td>Convexity (gamma) [74; 74]</td>
<td>91%</td>
<td>93%</td>
</tr>
<tr>
<td>Basis/correlation [74; 72]</td>
<td>73%</td>
<td>5%</td>
</tr>
<tr>
<td>Volatility (vega/kappa) [75; 76]</td>
<td>88%</td>
<td>93%</td>
</tr>
<tr>
<td>Time decay (theta) [77; 72]</td>
<td>76%</td>
<td>95%</td>
</tr>
<tr>
<td>Term structure [74; 73]</td>
<td>74%</td>
<td>5%</td>
</tr>
<tr>
<td>Crash scenarios/simulation “shock test” [71; 67]</td>
<td>24%</td>
<td>16%</td>
</tr>
</tbody>
</table>

**Key**

- **Current**
  - Daily
  - Weekly
  - Monthly
  - Quarterly
  - Not Available

**Planned**

- Daily
- Weekly
- Monthly
- Quarterly
- Not Available

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
### 5.17 (Continued)

#### Liquidity

<table>
<thead>
<tr>
<th>Category</th>
<th>Current</th>
<th>Planned</th>
<th>Daily</th>
<th>Weekly</th>
<th>Monthly</th>
<th>Quarterly</th>
<th>Not Available</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash/funding position [77; 75]</td>
<td>83%</td>
<td>81%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8%</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash/funding projection [75; 74]</td>
<td>61%</td>
<td>72%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>21%</td>
<td>19%</td>
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<td></td>
<td>5%</td>
<td>3%</td>
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<tr>
<td></td>
<td>7%</td>
<td>7%</td>
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</tbody>
</table>

#### P/L

<table>
<thead>
<tr>
<th>Category</th>
<th>Current</th>
<th>Planned</th>
<th>Daily</th>
<th>Weekly</th>
<th>Monthly</th>
<th>Quarterly</th>
<th>Not Available</th>
</tr>
</thead>
<tbody>
<tr>
<td>Origination revenue [71; 67]</td>
<td>62%</td>
<td>70%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>7%</td>
<td>8%</td>
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<tr>
<td></td>
<td>29%</td>
<td>24%</td>
<td></td>
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<td></td>
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<tr>
<td>Credit spread income [70; 68]</td>
<td>57%</td>
<td>44%</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td></td>
<td>9%</td>
<td>8%</td>
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<td></td>
<td>29%</td>
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<tr>
<td></td>
<td>26%</td>
<td>21%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk management P/L [72; 69]</td>
<td>69%</td>
<td>72%</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6%</td>
<td>10%</td>
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<td></td>
<td>15%</td>
<td>16%</td>
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<tr>
<td></td>
<td>7%</td>
<td>6%</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Total P/L - mark to market [80; 75]</td>
<td>81%</td>
<td>84%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9%</td>
<td>9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>2%</td>
<td>3%</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

#### Risk Capital

<table>
<thead>
<tr>
<th>Category</th>
<th>Current</th>
<th>Planned</th>
<th>Daily</th>
<th>Weekly</th>
<th>Monthly</th>
<th>Quarterly</th>
<th>Not Available</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using regulatory measures [68; 69]</td>
<td>10%</td>
<td>19%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>7%</td>
<td>10%</td>
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<tr>
<td></td>
<td>44%</td>
<td>46%</td>
<td></td>
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<tr>
<td></td>
<td>29%</td>
<td>20%</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Using internal measures [59; 62]</td>
<td>6%</td>
<td>6%</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9%</td>
<td>9%</td>
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<td></td>
<td>16%</td>
<td>15%</td>
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<td></td>
<td>22%</td>
<td>27%</td>
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<td>24%</td>
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<td>35%</td>
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<td></td>
<td>18%</td>
<td>15%</td>
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<tr>
<td></td>
<td>10%</td>
<td>10%</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

#### Key

- **Current**
- **Planned**
- **Daily**
- **Weekly**
- **Monthly**
- **Quarterly**
- **Not Available**

---

*Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.*
## Section 6  
**Operations, Technology and Audit**

### Operational and Technology Infrastructure

6.1 What degree of manual intervention is required in capturing the transaction details of a derivative product in your institution? [Number of current and planned respondents is indicated for each derivative type]

<table>
<thead>
<tr>
<th>Interest Rate Derivatives</th>
<th>Current, 80 respondents; planned, 78 respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated system, requiring little or no manual input once transaction details are entered</td>
<td>36%</td>
</tr>
<tr>
<td>Fragmented systems for front and back office with some electronic linkage, requiring regular reconciliation between front and back office</td>
<td>21%</td>
</tr>
<tr>
<td>Disparate systems requiring multiple input of transaction details and significant manual intervention</td>
<td>3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Currency Derivatives</th>
<th>Current, 80 respondents; planned, 76 respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated system, requiring little or no manual input once transaction details are entered</td>
<td>33%</td>
</tr>
<tr>
<td>Fragmented systems for front and back office with some electronic linkage, requiring regular reconciliation between front and back office</td>
<td>16%</td>
</tr>
<tr>
<td>Disparate systems requiring multiple input of transaction details and significant manual intervention</td>
<td>3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commodity Derivatives</th>
<th>Current, 31 respondents; planned, 33 respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated system, requiring little or no manual input once transaction details are entered</td>
<td>16%</td>
</tr>
<tr>
<td>Fragmented systems for front and back office with some electronic linkage, requiring regular reconciliation between front and back office</td>
<td>6%</td>
</tr>
<tr>
<td>Disparate systems requiring multiple input of transaction details and significant manual intervention</td>
<td>18%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity Derivatives</th>
<th>Current, 42 respondents; Planned: 43 respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated system, requiring little or no manual input once transaction details are entered</td>
<td>26%</td>
</tr>
<tr>
<td>Fragmented systems for front and back office with some electronic linkage, requiring regular reconciliation between front and back office</td>
<td>12%</td>
</tr>
<tr>
<td>Disparate systems requiring multiple input of transaction details and significant manual intervention</td>
<td>14%</td>
</tr>
</tbody>
</table>

**Key**  
- Current  
- Planned

*Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.*
6.2 What is the origin of your 'front office' derivatives systems? [Current, 80 respondents; planned, 76 respondents]

- Purchased/leased with minimal or no modification: 48% (Current) 38% (Planned)
- Purchased/leased with substantial modification: 19% (Current) 20% (Planned)
- Built internally: 70% (Current) 67% (Planned)

Key
Current
Planned

6.3 What is the origin of your 'back office' derivatives systems? [Current, 79 respondents; planned, 80 respondents]

- Purchased/leased with minimal or no modification: 39% (Current) 30% (Planned)
- Purchased/leased with substantial modification: 25% (Current) 21% (Planned)
- Built internally: 75% (Current) 68% (Planned)

Key
Current
Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
6.4 Generally, what differences are there between your front and back office systems? [Number of current and planned respondents are indicated for each activity]

- **Deal entry [79; 73]**
  - Current: 24%
  - Planned: 65%
  - None: 11%

- **Pricing/valuation algorithms [78; 73]**
  - Current: 15%
  - Planned: 75%
  - None: 7%

- **Position reporting [78; 74]**
  - Current: 18%
  - Planned: 32%
  - None: 50%

**Key**
- Current
- Planned
- Substantial
- Minor
- None

And what is the frequency of reconciliations when differences occur? [Number of current and planned respondents are indicated for each activity]

- **Deal information [50; 41]**
  - Daily: 78%
  - Weekly: 12%
  - Monthly: 10%
  - Quarterly: 2%

- **Position valuation (P&L) [47; 40]**
  - Daily: 64%
  - Weekly: 15%
  - Monthly: 8%
  - Quarterly: 7%

- **Position reporting [49; 41]**
  - Daily: 69%
  - Weekly: 14%
  - Monthly: 12%
  - Quarterly: 7%

**Key**
- Current
- Planned
- Daily
- Weekly
- Monthly
- Quarterly

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
6.5 In case of disaster (e.g., terrorist attack, natural disaster), which prevented use of your main derivatives pricing/risk management systems, how soon do you believe you could recover effective control of the market risk positions arising from your derivatives activities? [78 respondents]

- Immediately: 6%
- Within 24 hours: 63%
- Within 3 days: 3%
- Within 2 days: 9%
- Within 1 week: 8%
- No contingency plans or back up dealing room in place: 12%

6.6 Is there a separately identifiable systems group dedicated specifically to your derivatives business? [Current, 79 respondents: planned, 77 respondents]

- Yes, reporting within the derivatives business: 30% (planned 33%)
- Yes, reporting within the trading business: 19% (planned 18%)
- Yes, reporting to your central technology function: 29% (planned 30%)
- No: 22% (planned 20%)

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
For the following operations/settlements activities, please indicate whether the activity is automated (A), manual (M), or mixed (A/M). [Number of current and planned respondents indicated for each activity]

<table>
<thead>
<tr>
<th>Activity</th>
<th>Current</th>
<th>Planned</th>
<th>Automated</th>
<th>Manual</th>
<th>A/M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confirmations of transactions</td>
<td>44%</td>
<td>48%</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[78; 76]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment instructions</td>
<td>56%</td>
<td>35%</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[78; 76]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Historic volumes</td>
<td>49%</td>
<td>49%</td>
<td>22%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[74; 74]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projected trade volumes (for capacity planning)</td>
<td>11%</td>
<td>89%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[53; 54]</td>
<td>30%</td>
<td>70%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade amendments (audit trail)</td>
<td>51%</td>
<td>43%</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[70; 70]</td>
<td>55%</td>
<td>42%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open confirmations (those not received from counterparties)</td>
<td>24%</td>
<td>56%</td>
<td>43%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[74; 72]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cashflow projections for funding purposes</td>
<td>53%</td>
<td>46%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[72; 72]</td>
<td>49%</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest claims on late payments</td>
<td>13%</td>
<td>87%</td>
<td>62%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[73; 72]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key: Current [■] Planned [■] Automated [■] Manual [■] A/M [■]

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
6.7 *(Continued)* For the following operations/settlements activities, please indicate the frequency of the activity. [Number of current and planned respondents is indicated for each activity]

<table>
<thead>
<tr>
<th>Activity</th>
<th>Current Frequency</th>
<th>Planned Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confirmations of transactions</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Payment instructions</td>
<td>99%</td>
<td>99%</td>
</tr>
<tr>
<td>Historic volumes</td>
<td>28%</td>
<td>6% 37%</td>
</tr>
<tr>
<td>Projected trade volumes (for capacity planning)</td>
<td>7% 18% 20% 47%</td>
<td>31%</td>
</tr>
<tr>
<td>Trade amendments (audit trail)</td>
<td>77% 79%</td>
<td>11% 10%</td>
</tr>
<tr>
<td>Open confirmations (those not received from counterparties)</td>
<td>66% 70%</td>
<td>21% 18%</td>
</tr>
<tr>
<td>Cashflow projections for funding purposes</td>
<td>83%</td>
<td>88%</td>
</tr>
<tr>
<td>Interest claims on late payments</td>
<td>68% 75%</td>
<td>15% 13% 8%</td>
</tr>
</tbody>
</table>

**Key**

- Current
- Planned
- Daily
- Weekly
- Monthly
- Quarterly
- Not Produced

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Audit and Control

6.8 Which phrase best describes how you obtain pricing inputs for the purpose of valuation? [Current, 80 respondents; planned, 77 respondents]

- External data (including sources such as Reuters/Telerate) for all component risks and instruments except synthetic proprietary products.
  - Current: 48%
  - Planned: 60%

- External data sources for standard products and risk management group for remainder
  - Current: 21%
  - Planned: 21%

- External data sources for standard products and trading desks for remainder
  - Current: 35%
  - Planned: 25%

- Mostly from trading desks
  - Current: 10%
  - Planned: 8%

Key

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6.9 Where positions are marked by traders, is there a reasonableness test applied by an independent party? [32 total respondents]

- Yes: 96%
- No: 4%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
6.10 Where positions are revalued using a price different from that of the market, who has to approve this variance? [Current, 70 respondents; planned, 66 respondents]

- Chief operating officer: 16% (Current) vs. 15% (Planned)
- Head of risk management group: 46% (Current) vs. 50% (Planned)
- Head of business unit: 23% (Current) vs. 23% (Planned)
- Head of desk: 29% (Current) vs. 26% (Planned)
- Financial controller: 43% (Current) vs. 42% (Planned)
- Other: 9% (Current) vs. 9% (Planned)

Key

6.11 How are front office system pricing algorithms changed? [Current, 77 respondents; planned, 76 respondents]

- By dealers: 25% (Current) vs. 11% (Planned)
- By dealers and subsequently reviewed by independent group (risk management, systems control, audit): 39% (Current) vs. 44% (Planned)
- At request of dealers, by control or audit function: 5% (Current) vs. 4% (Planned)
- Following dealers request, by control or audit function (but subject to approval of risk management group or equivalent): 30% (Current) vs. 37% (Planned)
- Initiated by risk management group (or equivalent): 14% (Current) vs. 18% (Planned)

Key

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
6.12 How do you control the use of different versions of software in pricing and valuation models across the dealing room? [Current, 77 respondents; planned, 76 respondents]

- Version control function formally established to monitor and approve implementation of new versions of software: 53% currently, 75% planned.
- Informal monitoring and review of new versions of software being installed: 40% current, 24% planned.
- Little or no control over installation of new software in front office activities: 7% current, 1% planned.

Key
- Current
- Planned

6.13 Do you supply software to clients/counterparties? [78 respondents]

- Yes: 10%
- No: 90%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
6.14 What information does the senior executive to whom the head(s) of the derivatives business report(s) receive on a regular basis in relation to derivatives? [Number of current and planned respondents is indicated for each activity]

- Detailed market risk report [62; 62]
  - Current: 64%
  - Planned: 20%
  - Daily: 67%
  - Weekly: 23%
  - Monthly: 10%

- Summary market risk report highlighting large positions [60; 89]
  - Current: 69%
  - Planned: 21%
  - Daily: 9%
  - Weekly: 15%

- Summary counterparty report highlighting major exposures [57; 57]
  - Current: 30%
  - Planned: 27%
  - Daily: 45%
  - Weekly: 27%

- Capital utilization reports [45; 52]
  - Current: 13%
  - Planned: 12%
  - Daily: 27%
  - Weekly: 34%

- Analysis of major P&L movements [65; 66]
  - Current: 53%
  - Planned: 19%
  - Daily: 60%
  - Weekly: 15%

- Documentation backlog report [43; 47]
  - Current: 10%
  - Planned: 23%
  - Daily: 63%
  - Weekly: 58%

Key

- Current
- Planned
- Daily
- Weekly
- Monthly
- Quarterly

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Section 7  People and Organization

Board Level Understanding of Derivatives

7.1 Describe the depth of understanding of derivative products and associated risks by your board of directors (or equivalent). [79 respondents]

- A good understanding of the concepts and the risks: 28%
- Some knowledge but heavy reliance on next level of management: 65%
- Little understanding of derivatives: 8%

7.2 Which phrase(s) best describes the experience/training the Board has received on derivatives and associated risks? [79 respondents]

- At least one board member has relevant on-the-job experience: 34%
- Occasional oral or written briefings: 54%
- Occasional workshops supplemented by briefings: 10%
- Other: 1%
- None: 1%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Management Expertise and Training

7.3 Below Board level, what training is available to management to understand how derivatives can be used and how they should be managed? [Number of respondents is indicated for each employment category in the key below]

<table>
<thead>
<tr>
<th>Training Method</th>
<th>Management [75]</th>
<th>Internal users [74]</th>
<th>Derivative professionals [77]</th>
<th>Support functions [76]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal courses run regularly</td>
<td>31%</td>
<td>49%</td>
<td>42%</td>
<td>49%</td>
</tr>
<tr>
<td>Internal presentations as part of the marketing to (internal) end users</td>
<td>57%</td>
<td>87%</td>
<td>44%</td>
<td>42%</td>
</tr>
<tr>
<td>Access to external workshops</td>
<td>48%</td>
<td>54%</td>
<td>68%</td>
<td>86%</td>
</tr>
<tr>
<td>No organized training</td>
<td>13%</td>
<td>3%</td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

Key
- Management [75]
- Internal users [74]
- Derivative professionals [77]
- Support functions [76]

7.4 To what extent is the training provided perceived as being adequate to ensure that the business is conducted effectively? [Number of respondents is indicated for each employment category]

<table>
<thead>
<tr>
<th>Employment Category</th>
<th>Management [76]</th>
<th>Internal users [75]</th>
<th>Derivative professionals [76]</th>
<th>Support functions [73]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequate</td>
<td>41%</td>
<td>61%</td>
<td>67%</td>
<td>47%</td>
</tr>
<tr>
<td>Good in parts</td>
<td>47%</td>
<td>30%</td>
<td></td>
<td>43%</td>
</tr>
<tr>
<td>Inadequate</td>
<td>12%</td>
<td>11%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key
- Adequate
- Good in parts
- Inadequate

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
7.5 Which of the following phrases best describes your views to training for your staff in the derivatives business? [79 respondents]

- On-the-job experience is the best form of training: 47%
- Training should be formalized and in-house certification introduced: 35%
- Training should be formalized and industry-wide certification introduced: 8%
- Combination: 8%
- Other views: 3%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Section 8
Performance Measurement and Accounting

Accounting and Management Information

8.1 Under which country’s accounting standards are your financial statements prepared in relation to your derivatives business? [79 respondents]

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>23%</td>
</tr>
<tr>
<td>Japan</td>
<td>20%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18%</td>
</tr>
<tr>
<td>Germany</td>
<td>8%</td>
</tr>
<tr>
<td>France</td>
<td>8%</td>
</tr>
<tr>
<td>Italy</td>
<td>5%</td>
</tr>
<tr>
<td>Canada</td>
<td>4%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>3%</td>
</tr>
<tr>
<td>Sweden</td>
<td>3%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3%</td>
</tr>
<tr>
<td>Spain</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
<tr>
<td>Denmark</td>
<td>1%</td>
</tr>
<tr>
<td>Austria</td>
<td>1%</td>
</tr>
<tr>
<td>Australia</td>
<td>1%</td>
</tr>
<tr>
<td>Norway</td>
<td>0%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>0%</td>
</tr>
<tr>
<td>Belgium</td>
<td>0%</td>
</tr>
</tbody>
</table>

8.2 Are your accounting policies inconsistent for different instruments that are used for the same purpose? [Current, 68 respondents; planned, 66 respondents]

<table>
<thead>
<tr>
<th>Inconsistency</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans/deposits treated differently from traded instruments</td>
<td>74%</td>
<td>74%</td>
</tr>
<tr>
<td>Derivatives treated differently from underlying assets</td>
<td>40%</td>
<td>36%</td>
</tr>
<tr>
<td>Other</td>
<td>15%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
8.3 For a complex transaction, documented as a single transaction but which could have been broken out into individual components, do you use one of the following approaches? [Current, 79 respondents; planned, 77 respondents]

- Unbundle the transaction for both accounting and management purposes: 53% (current), 51% (planned)
- Account for the transaction as a single position but unbundle for management purposes: 29% (current), 30% (planned)
- Account for the transaction as a single position: 18% (current), 20% (planned)

Key
- Current
- Planned

8.4 Within your derivative systems have you developed a transaction database? [Current, 80 respondents; planned, 79 respondents]

- Comprehensive transactions database for all derivative business: 23% (current), 57% (planned)
- More than one transactions database (e.g., by locations, derivative group): 64% (current), 37% (planned)
- A transactions database for part of the portfolio: 10% (current), 4% (planned)
- No such database: 4% (current), 3% (planned)

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
8.5 How are the unrealized profits and losses arising out of derivative transactions shown in the balance sheet? [Current, 62 respondents; planned, 64 respondents]

- Gross unrealized profit on individual transactions shown as assets and gross unrealized losses on individual transactions shown as liabilities (i.e., no account taken of netting agreements)
  - Current: 24%
  - Planned: 19%

- Net unrealized profits by counterparty shown as assets and net unrealized losses by counterparty shown as liabilities (i.e., the effects of netting agreements are fully reflected)
  - Current: 13%
  - Planned: 45%

- Net unrealized profit by instrument shown as assets and net unrealized losses by instrument shown as liabilities
  - Current: 28%
  - Planned: 17%

- Net unrealized profit and loss across all types of derivatives shown as either an asset or a liability
  - Current: 36%
  - Planned: 19%

Key
- Current: 
- Planned: 

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
8.6 What information about your derivative product business is specifically identified in your public financial statements? [Current, 53; planned, 57; calculated as a percent of sample]

- Unrealized gains: 23% (Current), 25% (Planned)
- Unrealized losses: 18% (Current), 25% (Planned)
- Notional amount outstanding in total: 36% (Current), 33% (Planned)
- Notional amount outstanding by product type: 40% (Current), 43% (Planned)
- Revenue in total: 20% (Current), 24% (Planned)
- Revenue by product type: 5% (Current), 8% (Planned)
- Maturity profile by notional amount: 5% (Current), 10% (Planned)
- Maturity profile by exposure: 10% (Current), 3% (Planned)
- Credit profile by notional amount: 9% (Current), 10% (Planned)
- Credit profile by exposure: 8% (Current), 15% (Planned)
- Description of accounting policy: 63% (Current), 60% (Planned)
- Description of risk management policy: 34% (Current), 34% (Planned)
- Other: 13% (Current), 15% (Planned)

**Key**
- Current
- Planned

8.7 Are there any derivative products that are transacted internally (i.e., between different parts of the organization) where different accounting principles are applied to each side of the transactions? [43 respondents; calculated as percent of sample]

- Swaps: 49%
- FRAs: 26%
- Foreign exchange: 20%
- Options-based products: 26%
- Other: 8%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
### Performance Measurement and Capital Allocation

#### 8.8

How do you measure (and plan to measure) the overall performance of your derivatives business? [Current, 78 respondents; planned, 75 respondents]

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
<th>Key</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit (before allocated costs) pre-tax</td>
<td>57%</td>
<td>Current</td>
</tr>
<tr>
<td>Operating profit (before allocated costs) post-tax</td>
<td>11%</td>
<td>Planned</td>
</tr>
<tr>
<td>Net profit (after allocated costs) pre-tax</td>
<td>64%</td>
<td>Current</td>
</tr>
<tr>
<td>Net profit (after allocated costs) post-tax</td>
<td>55%</td>
<td>Planned</td>
</tr>
<tr>
<td>Pre-tax return on equity (or shareholders' funds)</td>
<td>13%</td>
<td>Current</td>
</tr>
<tr>
<td>Post-tax return on equity (or shareholders' funds)</td>
<td>12%</td>
<td>Planned</td>
</tr>
<tr>
<td>Pre-tax return on regulatory capital</td>
<td>32%</td>
<td>Current</td>
</tr>
<tr>
<td>Post-tax return on regulatory capital</td>
<td>11%</td>
<td>Planned</td>
</tr>
<tr>
<td>Pre-tax return on risk capital</td>
<td>52%</td>
<td>Current</td>
</tr>
<tr>
<td>Post-tax return on risk capital</td>
<td>21%</td>
<td>Planned</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>Current</td>
</tr>
</tbody>
</table>

**Note:** Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
8.9 What method do you use to allocate capital to your derivatives? [Current, 73 respondents; planned, 76 respondents]

- Separately capitalized subsidiary: 12% (Current), 9% (Planned)
- Imputed capital according to regulatory capital usage: 41% (Current), 38% (Planned)
- Notional allocation based on internal guidelines: 20% (Current), 22% (Planned)
- Calculated according to credit and market risk limits established for the derivatives business: 12% (Current), 30% (Planned)
- Not specifically calculated: 19% (Current), 9% (Planned)
- Other: 8% (Current), 9% (Planned)

Key
- Current
- Planned

8.10 What is the lowest level at which performance is monitored based upon your response to 8.8? [Current, 76 respondents; planned, 77 respondents]

- Individual trader: 27% (Current), 33% (Planned)
- Derivatives category (e.g., commodity swaps): 44% (Current), 44% (Planned)
- Business unit (e.g., Equity division): 23% (Current), 20% (Planned)
- Institution: 5% (Current), 4% (Planned)

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
8.11 To what extent are hurdle rates or targets based upon the performance measures selected in 8.8 used in assessing your derivatives activities? [Current, 77 respondents; planned, 73 respondents]

- Exclusively: 1%
- As the most important element in assessing performance:
  - Current: 31%
  - Planned: 38%
- As an element in assessing performance:
  - Current: 64%
  - Planned: 58%
- Not at all: 4% (Current), 3% (Planned)

Key
- Current
- Planned

8.12 Which of the following components of derivatives revenue are separately identified in internal performance reports? [70 respondents]

- Origination revenue: 67% (Current), 69% (Planned)
- Credit spread income: 43% (Current), 41% (Planned)
- Risk management P/L: 71% (Current), 79% (Planned)
- Other: 9% (Current), 9% (Planned)

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Survey of Industry Practice
End-Users

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Section 1  
Respondent Profile

Activities and Products

1.1 Indicate the phrase which best describes the nature of your institution. [80 respondents]

![Pie chart showing distribution of respondents by type of institution: Private sector corporation 63%, Supranational 7%, Sovereign 7%, Institutional investor 3%, Bank 15%, Public sector 6%]

1.2 Indicate the notional amount (to the nearest US$ billion equivalent) of activity in each of the following categories, including only transactions with an original maturity of one year or more. [Number of current and planned respondents indicated for each category]

**Derivatives used only for hedging specific risks [51; 46]**

- **Current**
  - US $5 to 10 billion: 13%
  - US $1 to 5 billion: 33%
  - Less than US $1 billion: 48%

- **Planned**
  - US $5 to 10 billion: 5%
  - US $1 to 5 billion: 33%
  - Less than US $1 billion: 48%

**Derivatives used for hedging of assets and liabilities on a portfolio basis as well as hedging specific risk [42; 50]**

- **Current**
  - US $5 to 10 billion: 24%
  - US $1 to 5 billion: 30%
  - Less than US $1 billion: 30%

- **Planned**
  - US $5 to 10 billion: 16%
  - US $1 to 5 billion: 31%
  - Less than US $1 billion: 31%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
1.3 If you use derivatives for hedging, please describe the purpose of your hedging activity. [73 respondents]

- Hedge market risks (interest, foreign exchange, equity, commodity or multi-asset) arising from new financing: 88%
- Modify characteristics of existing assets and liabilities: 84%
- Offset options positions that are embedded in assets or liabilities: 31%
- Hedge current income/profits: 38%
- Hedge future income/profits: 43%
- Hedge foreign exchange transaction exposures: 64%
- Hedge foreign exchange translation exposures: 38%
- Hedge future energy or raw materials costs: 9%

Key

Current

Planned

1.4 How valuable do you consider derivatives to be in controlling risk within your organization outside any profit center trading or position taking activity? [75 respondents]

- Imperative: 42%
- Not very important: 0%
- Very important: 40%
- Of little value: 0%
- Important: 19%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
For each of the following derivative instruments please indicate which you currently use and which you plan to use over the next 18 months. [Current, 72 respondents; planned, 74 respondents]

### Interest rate derivatives
- Interest rate swaps: Current 90%, Planned 88%
- Basis swaps: Current 32%, Planned 39%
- Forward rate agreements ("FRAs"): Current 35%, Planned 42%
- Interest rate options including swaptions, caps, collars, and floors: Current 50%, Planned 65%

### Currency derivatives
- Currency swaps: Current 64%, Planned 63%
- Cross currency rate swaps: Current 53%, Planned 57%
- Forward foreign exchange: Current 25%, Planned 75%
- Currency options: Current 25%, Planned 26%

### Commodity derivatives
- Commodity swaps: Current 10%, Planned 13%
- Commodity options including swaptions, caps, collars, and floors: Current 8%, Planned 11%

### Equity derivatives
- Equity swaps (individual stocks, baskets, indices): Current 7%, Planned 13%
- Equity options including swaptions, caps, collars, and floors: Current 11%, Planned 13%

### Multi-asset derivatives
- "Diff," two factor or quanto swaps, or options: Current 4%, Planned 14%

**Key**
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
1.6 To what extent do you use and plan to use over-the-counter derivatives relative to exchange-traded derivatives? [70 respondents]

- We use more over-the-counter derivatives than exchange-traded derivatives: 92% current, 94% planned
- About the same: 5% current, 3% planned
- We use more exchange-traded derivatives than over-the-counter derivatives: 3% current, 3% planned

Key: Current (black), Planned (green)

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 1% may not be shown.


### Section 2 Senior Management Perspectives

#### Documentation

2.1 Please indicate which of the following considerations currently inhibit your use of derivatives. [Number of respondents indicated for each consideration]

<table>
<thead>
<tr>
<th>Consideration</th>
<th>28%</th>
<th>36%</th>
<th>33%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enforceability of netting provisions in the jurisdiction(s) of the counterparty in the event of default [68]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of consistency of own documentation [68]</td>
<td>20%</td>
<td>31%</td>
<td>48%</td>
</tr>
<tr>
<td>Backlog of unsigned legal documentation [68]</td>
<td>18%</td>
<td>34%</td>
<td>48%</td>
</tr>
<tr>
<td>Risk of undertaking transactions without subsequently being able to complete documentation [68]</td>
<td>21%</td>
<td>25%</td>
<td>49%</td>
</tr>
<tr>
<td>Less rigorous documentation standards for shorter-term transactions or certain specific products [65]</td>
<td>7%</td>
<td>31%</td>
<td>62%</td>
</tr>
</tbody>
</table>

**Key**

- **Substantial effect**
- **Some effect**
- **Little effect**
- **Not relevant**

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
2.2 Please indicate which of the following considerations currently inhibit your use of derivatives. [68 respondents]

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentration of exposure on a few counterparties</td>
<td>15%</td>
</tr>
<tr>
<td>Long-term nature of the commitments and corresponding credit exposure</td>
<td>15%</td>
</tr>
<tr>
<td>Difficulty in properly quantifying the potential exposure of individual transactions</td>
<td>30%</td>
</tr>
<tr>
<td>Difficulty in properly aggregating exposure by counterparty</td>
<td>20%</td>
</tr>
<tr>
<td>Enforceability of rights to collateral held</td>
<td>13%</td>
</tr>
</tbody>
</table>

Key

<table>
<thead>
<tr>
<th></th>
<th>Substantial effect</th>
<th>Some effect</th>
<th>Little effect</th>
<th>Not relevant</th>
</tr>
</thead>
</table>

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Valuation and Market Risk Management

2.3 Please indicate which of the following considerations currently inhibit your use of derivatives. [67 respondents]

- Obtaining and checking pricing from counterparties: 10% substantial, 13% some, 45% little, 32% not relevant
- Ability of own models to verify value of transactions offered: 32% substantial, 38% some, 23% little
- Ability of (your) risk management systems to report consolidated risks on a timely basis: 13% substantial, 23% some, 50% little, 13% not relevant
- Complexity of business: 8% substantial, 35% some, 38% little, 18% not relevant
- Degree of liquidity of certain derivative products: 17% substantial, 45% some, 22% little, 17% not relevant

Key

- Substantial effect
- Some effect
- Little effect
- Not relevant

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
## Operation, Technology, and Audit

2.4 Please indicate which of the following considerations currently inhibit your use of derivatives. [67 respondents]

<table>
<thead>
<tr>
<th>Issue</th>
<th>Substantial effect</th>
<th>Some effect</th>
<th>Little effect</th>
<th>Not relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives activity exceeds our capacity to process and settle on a timely basis</td>
<td>10%</td>
<td>37%</td>
<td>48%</td>
<td></td>
</tr>
<tr>
<td>Quality of execution</td>
<td>12%</td>
<td>41%</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>Understanding of derivative products by processing/administration staff</td>
<td>30%</td>
<td>37%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Fragmentation of systems between deal transactors and deal processors</td>
<td>13%</td>
<td>32%</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>Adequacy of software used</td>
<td>8%</td>
<td>20%</td>
<td>32%</td>
<td>33%</td>
</tr>
</tbody>
</table>

**Key**

- Substantial effect
- Some effect
- Little effect
- Not relevant

*Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.*
Section 3 Documentation

Counterparty Documentation

3.1 Using transactions executed with external counterparties in 1992 (or a representative period) as a basis for calculation, how were transactions documented with your counterparties? [Number of respondents indicated for each type of transaction]

<table>
<thead>
<tr>
<th>Derivatives</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>71%</td>
</tr>
<tr>
<td>derivatives [79]</td>
<td></td>
</tr>
<tr>
<td>Currency derivatives</td>
<td>64%</td>
</tr>
<tr>
<td>excluding FX forwards</td>
<td>19%</td>
</tr>
<tr>
<td>and options [62]</td>
<td>16%</td>
</tr>
<tr>
<td>FX forwards and</td>
<td>15%</td>
</tr>
<tr>
<td>options [65]</td>
<td></td>
</tr>
<tr>
<td>Equity derivatives</td>
<td>49%</td>
</tr>
<tr>
<td>[12]</td>
<td></td>
</tr>
<tr>
<td>Commodity derivatives</td>
<td>57%</td>
</tr>
<tr>
<td>[7]</td>
<td></td>
</tr>
</tbody>
</table>

Key

- Master Agreements
- Individual Transaction Agreements
- Confirmations

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.2 In establishing Master Agreements with dealer counterparties, how frequently do you use or plan to use the following? [Number of current and planned respondents are indicated for each question]

<table>
<thead>
<tr>
<th>Agreement Type</th>
<th>Current</th>
<th>Planned</th>
<th>Frequently</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISDA Master Agreement with little or no modification [70; 70]</td>
<td>49%</td>
<td>12%</td>
<td>12%</td>
<td>28%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>11%</td>
<td>11%</td>
<td>28%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ISDA Master Agreement with major modifications [66; 65]</td>
<td>42%</td>
<td>10%</td>
<td>22%</td>
<td>27%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>41%</td>
<td>10%</td>
<td>26%</td>
<td>24%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFMA modifications to ISDA Master Agreement [54; 55]</td>
<td>9%</td>
<td></td>
<td>84%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>11%</td>
<td></td>
<td>82%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBA standard terms [56; 55]</td>
<td></td>
<td>10%</td>
<td>80%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>12%</td>
<td>6%</td>
<td>81%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFB standard items [50; 50]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>89%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>89%</td>
<td></td>
</tr>
<tr>
<td>German Master Agreement for swap transactions [55; 50]</td>
<td></td>
<td>9%</td>
<td>87%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>9%</td>
<td>80%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICOM Master Agreement [54; 56]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>97%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td>Other local standard terms [45; 46]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>91%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>88%</td>
</tr>
<tr>
<td>Master Agreement developed for your own institution [58; 57]</td>
<td>18%</td>
<td>8%</td>
<td>8%</td>
<td>65%</td>
<td>18%</td>
<td>11%</td>
</tr>
<tr>
<td>The counterparty’s Master Agreement [57; 57]</td>
<td>9%</td>
<td>25%</td>
<td>20%</td>
<td>47%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9%</td>
<td>21%</td>
<td>21%</td>
<td>49%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key: Current, Planned, Frequently, Sometimes, Rarely, Never

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.3 To what extent are your foreign exchange transactions documented under the same Master Agreement used for other over-the-counter interest rate and currency derivatives? [Number of current and planned respondents are indicated for each category]

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>FX forwards [75; 75]</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>21%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>FX spot [70; 71]</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>83%</td>
<td>74%</td>
</tr>
<tr>
<td>FX options [69; 70]</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>18%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>73%</td>
<td>62%</td>
</tr>
</tbody>
</table>

Key

- Current
- Planned

- Frequently
- Sometimes
- Rarely
- Never

3.4 How would you characterise the extent to which your derivatives transactions are documented under multi-product Master Agreements? [79 respondents]

- To a large extent: 35%
- To a modest extent: 25%
- Not at all: 27%
- Not at all: 39%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.5 If you have answered ‘to a large extent’ in 3.4, what products or instruments are typically covered under your most comprehensive single agreement? [Current, 28 respondents; planned, 35 respondents]

- Interest rate derivatives excluding FRAs: 96% (Current), 90% (Planned)
- Forward rate agreements: 48% (Current), 52% (Planned)
- Currency derivatives, excluding FX forwards and options: 92% (Current), 94% (Planned)
- Commodity derivatives: 8% (Current), 23% (Planned)
- Equity derivatives: 12% (Current), 23% (Planned)
- Multi-asset derivatives: 12% (Current), 23% (Planned)
- FX forwards: 20% (Current), 29% (Planned)
- FX options: 28% (Current), 36% (Planned)
- Spot FX: 8% (Current), 10% (Planned)

Key
- Current
- Planned

3.6 Under what circumstances do you permit transactions to be undertaken without documentation having been previously signed? [79 respondents]

- Always (normal practice): 4% (Current), 4% (Planned)
- Only with well-known counterparties of high credit quality: 59% (Current), 52% (Planned)
- When documentation is substantially agreed: 52% (Current), 39% (Planned)
- Only under exceptional circumstances: 25% (Current), 38% (Planned)

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Please indicate the frequency of delays in signing transaction legal documentation, as measured by the number of days from trade date to signature of the agreement. [Number of respondents indicated for each time frame]

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>Frequently</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 6 months [69]</td>
<td>11%</td>
<td>37%</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>3–6 months [68]</td>
<td>7%</td>
<td>16%</td>
<td>33%</td>
<td>44%</td>
</tr>
<tr>
<td>1–3 months [73]</td>
<td>18%</td>
<td>21%</td>
<td>29%</td>
<td>32%</td>
</tr>
<tr>
<td>15–30 days [71]</td>
<td>23%</td>
<td>39%</td>
<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>2–15 days [71]</td>
<td>39%</td>
<td>30%</td>
<td>22%</td>
<td>9%</td>
</tr>
<tr>
<td>Within 48 hours [61]</td>
<td>35%</td>
<td>16%</td>
<td>22%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Key
- Frequently
- Sometimes
- Rarely
- Never

What is the longest transaction signing delay (from trade date) currently outstanding at your institution for a transaction which has yet to be signed? [59 respondents]

<table>
<thead>
<tr>
<th>Delay Time</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 6 months</td>
<td>72%</td>
</tr>
<tr>
<td>6–12 months</td>
<td>19%</td>
</tr>
<tr>
<td>More than 12 months</td>
<td>9%</td>
</tr>
</tbody>
</table>

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.9 How quickly do you receive initial telex or fax confirmation of trades from dealers? [Number of respondents indicated for each time frame]

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>Frequently</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same day [77]</td>
<td>59%</td>
<td>31%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Next day [76]</td>
<td>22%</td>
<td>69%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Within 48 hours [74]</td>
<td>29%</td>
<td>29%</td>
<td>30%</td>
<td>12%</td>
</tr>
<tr>
<td>3–7 days [71]</td>
<td>8%</td>
<td>13%</td>
<td>34%</td>
<td>45%</td>
</tr>
<tr>
<td>More than 7 days [70]</td>
<td>8%</td>
<td>29%</td>
<td>64%</td>
<td></td>
</tr>
</tbody>
</table>

Key

- Frequently
- Sometimes
- Rarely
- Never

3.10 How quickly do you send or respond to telex or fax confirmation of trades to counterparties? [Number of respondents indicated for each time frame]

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>Frequently</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same day [77]</td>
<td>48%</td>
<td>22%</td>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>Next day [76]</td>
<td>29%</td>
<td>50%</td>
<td>13%</td>
<td>7%</td>
</tr>
<tr>
<td>Within 48 hours [72]</td>
<td>23%</td>
<td>34%</td>
<td>29%</td>
<td>14%</td>
</tr>
<tr>
<td>3–7 days [72]</td>
<td>15%</td>
<td>22%</td>
<td>17%</td>
<td>46%</td>
</tr>
<tr>
<td>More than 7 days [72]</td>
<td>11%</td>
<td>28%</td>
<td>59%</td>
<td></td>
</tr>
</tbody>
</table>

Key

- Frequently
- Sometimes
- Rarely
- Never

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.11 If you use Master Agreements, what type of final confirmations do you use for individual transactions under the Master Agreements? [80 respondents; numbers represent average response given]

<table>
<thead>
<tr>
<th>Confirmation Type</th>
<th>5%</th>
<th>10%</th>
<th>45%</th>
<th>7%</th>
<th>10%</th>
<th>34%</th>
<th>60%</th>
<th>80%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telex Confirmation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fax Confirmation</td>
<td></td>
<td></td>
<td>18%</td>
<td>7%</td>
<td>10%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mail Confirmation</td>
<td></td>
<td></td>
<td></td>
<td>45%</td>
<td>7%</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key:
- 81-100%
- 61-80%
- 41-60%
- 21-40%
- 0-20%

For example, 80% of respondents use telex confirmation between 0 and 20% of the time.

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.12 What are the common features of transactions where documentation takes the longest to complete? [Numbers represent average response given; ranked on a scale where 1 = biggest effect and 10 = least effect on delay; number of respondents indicated for each transaction feature]

- Complexity of transaction [58] 3.98
- Firm of counsel or lawyers of counterparty [46] 5.00
- Nationality of counterparty [64] 5.36
- Type of counterparty [50] 6.56

Effect on Delay

10 Least 5 Effect on Delay 1 Greatest

3.13 How would you characterise your documentation backlog? [79 respondents]

**Severe Backlog**
- Getting worse 0%
- Same 1%
- Getting better 6%

**Moderate Backlog**
- Getting worse 3%
- Same 14%
- Getting better 23%

**Minimal Backlog**
- Getting worse 0%
- Same 34%
- Getting better 20%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Specific Conditions in Legal Agreements

3.14 Which governing law do you use most frequently for documentation? [Numbers represent average response given; ranked in order of frequency where 1 = most frequent; number of respondents indicated for each type]

- English [72] 1.33
- United States [42] 2.19
- Domestic (other than A or B above) [28] 2.00

3.15 What proportion of your derivatives transactions include in the documentation provisions relating to the following? [Number of current and planned respondents indicated for each transaction type]

Credit Event upon Merger or Acquisition

- One-way (counterparty only) [56; 49] 7% 7% 11% 74%
- One-way (only you) [46; 47] 7% 7% 75%
- Two-way (both you and counterparty) [66; 70] 42% 16% 13% 7% 22%

Key

<table>
<thead>
<tr>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>Most</td>
</tr>
<tr>
<td>Some</td>
<td>Few</td>
</tr>
<tr>
<td>None</td>
<td></td>
</tr>
</tbody>
</table>

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
(continued) What proportion of your derivatives transactions include in the documentation provisions relating to the following? [Number of current and planned respondents indicated for each transaction type]

### Credit Event upon Downgrade

<table>
<thead>
<tr>
<th>Event Type</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-way (counterparty only) [50:54]</td>
<td>83%</td>
<td>76%</td>
</tr>
<tr>
<td>One-way (only you) [46:48]</td>
<td>93%</td>
<td>93%</td>
</tr>
<tr>
<td>Two-way (both you and counterparty) [62:65]</td>
<td>18%</td>
<td>14%</td>
</tr>
<tr>
<td>Two-way (both you and counterparty) [62:65]</td>
<td>21%</td>
<td>10%</td>
</tr>
</tbody>
</table>

### Cross Default

<table>
<thead>
<tr>
<th>Event Type</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-way (counterparty only) [50:48]</td>
<td>11%</td>
<td>73%</td>
</tr>
<tr>
<td>One-way (only you) [46:46]</td>
<td>12%</td>
<td>7%</td>
</tr>
<tr>
<td>Two-way (both you and counterparty) [64:68]</td>
<td>35%</td>
<td>16%</td>
</tr>
<tr>
<td>Two-way (both you and counterparty) [64:68]</td>
<td>37%</td>
<td>18%</td>
</tr>
</tbody>
</table>

### Cross Acceleration

<table>
<thead>
<tr>
<th>Event Type</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-way (counterparty only) [46:46]</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>One-way (only you) [46:46]</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Two-way (both you and counterparty) [46:46]</td>
<td>21%</td>
<td>10%</td>
</tr>
<tr>
<td>Two-way (both you and counterparty) [46:46]</td>
<td>23%</td>
<td>14%</td>
</tr>
</tbody>
</table>

**Key**

- **Current**
  - All
  - Most
  - Some
  - Few
  - None

- **Planned**
  - All
  - Most
  - Some
  - Few
  - None

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
3.17  Do you require limited two-way payments or full two-way payments on early termination? [76 respondents]

- Limited One-Way: 41%
- Full Two-Way: 47%
- Either: 56%
- Key: Current [ ] Planned [ ]

3.18  If you use full two-way payments on early termination, do you typically add a set-off clause to your Master Agreements? [43 respondents]

- Yes: 54%
- No: 46%

3.19  Do you typically allow your counterparties to contract as a multi-branch party? [76 respondents]

- If they insist: 24%
- Open mind: 40%
- No: 37%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
## Section 4  
### Counterparty Risk

#### Counterparty Approval Process

4.1 What information do you use to approve counterparties for derivative transaction? [80 respondents]

<table>
<thead>
<tr>
<th>Information</th>
<th>Current</th>
<th>Planned</th>
<th>Primary Factor</th>
<th>Secondary Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit ratings</td>
<td>89%</td>
<td>7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific internal credit reviews of information</td>
<td>26%</td>
<td>36%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>provided by counterparty and publicly available</td>
<td>25%</td>
<td>38%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>information</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific internal credit reviews of publicly</td>
<td>21%</td>
<td>38%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>available financial and other information</td>
<td>24%</td>
<td>36%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal knowledge of counterparty</td>
<td>18%</td>
<td>43%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Key**

- Current
- Planned
- Primary Factor
- Secondary Factor

*Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.*
4.2 If you rely on credit ratings for your credit decisions, which statement best describes the way you use credit ratings? [76 respondents]

- Uniform minimum ratings for all counterparties: 64% (63%)
- Minimum ratings by type of counterparty: 29% (32%)
- Minimum ratings by country of counterparty: 13% (16%)
- Minimum ratings by maturity of transaction: 25% (35%)
- Minimum ratings by type of transaction: 26% (31%)
- Minimum ratings based on subjective assessment of riskiness of transaction: 13% (13%)
- Other: 2% (2%)

Key
- Current
- Planned

4.3 Who approves counterparties for derivatives transactions? [80 respondents]

- Board of directors: 19% (19%)
- Chief executive officer: 6% (6%)
- Chief financial officer: 40% (39%)
- Risk committee: 22% (24%)
- Treasurer: 46% (46%)
- Other: 17% (17%)

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Counterparty Exposure Measurement

4.4 How do you measure your counterparty exposure on derivative products? [Current, 79 respondents; planned, 80 respondents]

- At the outset of each transaction: 41% (Current), 38% (Planned)
- On an ongoing basis for all transactions: 62% (Current), 75% (Planned)
- Not formally: 23% (Current), 15% (Planned)

Key
- Current
- Planned

4.5 How do you measure the exposure of an individual transaction? [Current, 78 respondents; planned, 80 respondents]

- Notional amount of transaction: 27% (Current), 24% (Planned)
- Percentage of notional amount of transaction by type and maturity of transaction: 40% (Current), 38% (Planned)
- Percentage of notional amount of transaction adjusted for any up-front payment and mismatch in payment dates: 9% (Current), 11% (Planned)
- Own method based on worst case scenarios using historical volatility measures applied to each new transaction: 16% (Current), 21% (Planned)
- Own method relying on exposure tables for generic transactions developed from worst case scenarios using historical volatility measures: 9% (Current), 15% (Planned)
- Best guess based on subjective judgement: 10% (Current), 8% (Planned)
- Mark to market: 14% (Current), 15% (Planned)
- Other method: 13% (Current), 11% (Planned)

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.6 Which phrase(s) best describes the way you measure overall risk on a counterparty? [Current, 77 respondents; planned, 78 respondents]

**Exposure**
- Current exposure: 35%
- Potential exposure: 10%
- Current and potential exposure: 43%
- Notional amount or a percentage thereof: 29%

**Scope**
- Transaction by transaction: 27%
- Aggregated across transactions on a gross basis: 44%
- Aggregated across transactions on a net basis: 37%

**Time**
- Original exposure: 29%
- Residual maturity (i.e., updated during the life of the transaction): 76%

**Key**
- Current
- Planned

4.7 What is the minimum frequency with which you monitor your derivatives exposure to counterparties? [78 respondents]

- Intraday, on-line: 7%
- Overnight reporting: 13%
- Weekly: 10%
- Monthly: 43%
- Quarterly or less frequently: 27%

**Key**
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.8 Do you have the capacity to review derivatives counterparty exposure on an as needed basis during intervals between reporting periods? [76 respondents]

No 31%

Yes 69%

Counterparty Risk Limits

4.9 On what basis do you calculate credit limit utilization on a portfolio of derivatives transactions with a single counterparty? [80 respondents]

On a net basis 28%

On a gross basis (no netting) 35%

On both net and gross bases 15%

No formal limit 22%

Key

Current

Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
**Collateral and Credit Enhancement Arrangements**

4.10 What forms of credit enhancement do you accept (or plan to accept) for over-the-counter derivatives transactions? [Current, 77 respondents; planned, 79 respondents]

<table>
<thead>
<tr>
<th>Type</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash collateral</td>
<td>23%</td>
<td>38%</td>
</tr>
<tr>
<td>Securities collateral</td>
<td>23%</td>
<td>34%</td>
</tr>
<tr>
<td>Third party guarantee or enhancement</td>
<td>43%</td>
<td>42%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>None</td>
<td>40%</td>
<td>34%</td>
</tr>
</tbody>
</table>

Key

Current

Planned

---

4.11 What forms of credit enhancement are you prepared to provide (or plan to provide) to at least some (not necessarily all) counterparties on over-the-counter derivatives business? [Current, 77 respondents; planned, 80 respondents]

<table>
<thead>
<tr>
<th>Type</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash collateral</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Securities collateral</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Third party guarantee or enhancement</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>One of the above, but only on a reciprocal basis</td>
<td>2%</td>
<td>7%</td>
</tr>
<tr>
<td>None</td>
<td>62%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Key

Current

Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
4.12 To what extent do you require some form of credit enhancement according to the quality of your counterparties? [Current, 79 respondents; planned, 78 respondents]

- All counterparties: 4%
- All AA or lower: 1%
- All A or lower: 4%
- All BBB or lower: 3%
- Case-by-case: 30%
- None—we do not deal with counterparties below a certain credit rating: 59%

Key
Current
Planned

4.13 If you require some form of credit enhancement based on the credit rating of your counterparty, do you provide in your counterparty contracts for changes to the credit enhancement required should the credit rating of the counterparty be changed? [Current, 39 respondents; planned, 42 respondents]

- Yes, if downgraded: 20%
- Yes, for both downgrading and upgrading: 9%
- Occasionally negotiated for downgrading: 26%
- Rarely or never: 46%

Key
Current
Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Section 5  Valuation and Market Risk Management

Position Valuation

5.1 For derivatives positions used to hedge risk or to change the risk profile (e.g., in asset/liability management) of your institution, please indicate how you value these derivative positions. [Number of respondents indicated for each section]

### Management accounting
[Current, 79 respondents; planned, 79 respondents]

<table>
<thead>
<tr>
<th>Approach</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valued on same basis as position being hedged</td>
<td>56%</td>
<td>52%</td>
</tr>
<tr>
<td>Marked to market</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>Accruals basis</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>No consistent approach</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

### External reporting
[Current, 76 respondents; planned, 77 respondents]

<table>
<thead>
<tr>
<th>Approach</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valued on same basis as position being hedged</td>
<td>53%</td>
<td>52%</td>
</tr>
<tr>
<td>Marked to market</td>
<td>28%</td>
<td>34%</td>
</tr>
<tr>
<td>Accruals basis</td>
<td>26%</td>
<td>26%</td>
</tr>
<tr>
<td>No consistent approach</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Key**

- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Section 6  Operations, Technology and Audit

Operational and Technology Infrastructure

6.1 What degree of manual intervention is required to capture the transaction details of different derivative products to your institution? [Current, 71 respondents; planned, 70 respondents]

<table>
<thead>
<tr>
<th>Integrated system, requiring little or no manual input once transaction details are entered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fragmented systems for front and back office with some electronic linkage, requiring regular reconciliation between front and back office</td>
</tr>
<tr>
<td>Disparate systems requiring multiple input of transaction details and significant manual intervention</td>
</tr>
</tbody>
</table>

Key
- Current
- Planned

6.2 Do you have an automated system for monitoring the positions and pricing of your derivatives activity? [80 respondents]

If you answered ‘yes,’ what is the origin of your system?

<table>
<thead>
<tr>
<th>Purchased/leased with minimal or no modification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased/leased with substantial modification</td>
</tr>
<tr>
<td>Built internally</td>
</tr>
</tbody>
</table>

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
6.3 What is the origin of your system for administering and accounting for your derivatives activity? [Current, 47 respondents; planned, 56 respondents]

Automated systems
- Purchased/leased with minimal or no modification: 26% (Current), 34% (Planned)
- Purchased/leased with substantial modification: 31% (Current), 34% (Planned)
- Built internally: 66% (Current), 52% (Planned)

Other
- PC spreadsheet: 84% (Current), 82% (Planned)
- Manual: 41% (Current), 40% (Planned)

Key
- Current
- Planned

Audit and Control

6.4 From what source do you obtain pricing inputs for the purpose of mark-to-market valuation? [Current, 55 respondents; planned, 57 respondents]

- Screens (e.g., Reuters/Telerate): 100% (Current), 100% (Planned)
- Market makers/dealers: 77% (Current), 74% (Planned)
- Own transactors: 6% (Current), 6% (Planned)
- Other: 10% (Current), 10% (Planned)

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
6.5 How do you control the use of different versions of software being used in pricing and valuation models by different deal transactors? [Current, 49 respondents; planned, 51 respondents]

Control function formally established to monitor and approve implementation of new versions of software

- Current: 23%
- Planned: 41%

Informal monitoring and review of new versions of software being installed

- Current: 36%
- Planned: 28%

Little or no control over installation of new software

- Current: 41%
- Planned: 30%

Key

- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
6.6 How frequently does the senior executive (to whom the officer responsible for managing the use of derivatives reports) receive a report outlining the profit and risk associated with derivatives? [Current, 77 respondents; planned, 76 respondents]

Key

- Current
- Planned
- Detailed
- Summary
- Not specified

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Section 7  People and Organization

Board Level Understanding of Derivatives

7.1 What depth of understanding of derivative products and associated risks is possessed by your board of directors? [80 respondents]

A sufficient understanding relative to the use of derivatives at your organization 53%

A good understanding of the concepts and the risks of derivatives 18%

Little understanding of derivatives 29%

7.2 How would you best describe the experience/training the Board has received on derivatives and associated risks? [80 respondents]

None 8% 8%

Occasional oral or written briefings 71% 65%

Occasional workshops supplemented by briefings 17% 22%

At least one board member has relevant on-the-job derivatives experience 39% 40%

Other 1% 1%

Key Current Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Management Expertise and Training

7.3 Below Board level, what training is available to understand how derivatives can be used and how they should be managed? [Number of respondents indicated for each employment category]

- Internal courses or presentations run regularly: 21%
- Access to external workshops: 68%
- No organized training: 29%

Key
- Management [78]
- Internal users [77]
- Support functions [74]

7.4 To what extent is the training provided perceived as being adequate to ensure that the business is conducted effectively? [Number of respondents indicated for each employment category]

- Management [79]: 48% Adequate, 44% Good in parts, 8% Inadequate
- Internal users [78]: 58% Adequate, 37% Good in parts
- Support functions [75]: 46% Adequate, 33% Good in parts, 21% Inadequate

Key
- Adequate
- Good in parts
- Inadequate

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
7.5 Which of the following phrases best describes your views about training for your staff in the derivatives business? [79 respondents]

- Training should be formalized and in-house certification introduced: 35%
- On-the-job experience is the best form of training: 47%
- Combination: 8%
- Other views: 3%
- Training should be formalized and industry-wide certification introduced: 8%

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
Section 8  Performance Measurement and Accounting

Accounting and Management Information

8.1 Under which country’s accounting standards are your financial statements prepared? [80 respondents]

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>29%</td>
</tr>
<tr>
<td>Japan</td>
<td>24%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>13%</td>
</tr>
<tr>
<td>Germany</td>
<td>10%</td>
</tr>
<tr>
<td>Australia</td>
<td>8%</td>
</tr>
<tr>
<td>France</td>
<td>5%</td>
</tr>
<tr>
<td>Canada</td>
<td>3%</td>
</tr>
<tr>
<td>Austria</td>
<td>3%</td>
</tr>
<tr>
<td>Finland</td>
<td>3%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
</table>

8.2 Are your financial/external accounting policies inconsistent for different instruments that are used for the same purpose? [58 respondents]

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans/deposits treated differently from traded instruments</td>
<td>27%</td>
</tr>
<tr>
<td>Derivatives treated differently from underlying assets/liabilities</td>
<td>60%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
</tr>
</tbody>
</table>

Key: Current, Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
8.3 In what way do prevailing tax regulations treat inconsistently different transactions which are used for the same purpose? [57 respondents]

<table>
<thead>
<tr>
<th>Category</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans/deposits treated differently from ledger transactions</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Derivatives treated differently from underlying assets/liabilities</td>
<td>65%</td>
<td>65%</td>
</tr>
<tr>
<td>Other</td>
<td>16%</td>
<td>16%</td>
</tr>
</tbody>
</table>

8.4 Which of the following are reasons for inconsistent external accounting policies? [65 respondents]

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting standards require the different treatments</td>
<td>48%</td>
</tr>
<tr>
<td>Accounting standards permit different treatments and you deem the use of different treatments to be appropriate</td>
<td>15%</td>
</tr>
<tr>
<td>Tax rules require the different treatment</td>
<td>29%</td>
</tr>
<tr>
<td>Tax advantages are obtained by choosing different treatments</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
<tr>
<td>Not applicable</td>
<td>50%</td>
</tr>
</tbody>
</table>

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
8.5 On accounting for hedges, under what circumstances is the accounting treatment for the hedge inconsistent with the accounting treatment for the position being hedged? [Current, 71 respondents; planned, 69 respondents]

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Current</th>
<th>Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>67%</td>
<td>66%</td>
</tr>
<tr>
<td>Forward currency positions being hedged by swaps</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Forward currency positions being hedged by options</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Forward commodity positions being hedged by swaps</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Forwards commodity positions being hedged by options</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Almost always</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>14%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Key: Current, Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
8.6 Under what circumstances is the tax treatment for the hedge inconsistent with the tax treatment for the position being hedged? [Current, 58 respondents; planned, 57 respondents]

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Current (%)</th>
<th>Planned (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>58%</td>
<td>59%</td>
</tr>
<tr>
<td>Forward currency positions being hedged by swaps</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Forward currency positions being hedged by options</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Forward commodity positions being hedged by swaps</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Forwards commodity positions being hedged by options</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Almost always</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Not liable for tax</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>31%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Key

- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
8.7 What information about your derivative activity is specifically identified in your public financial statements? [61 respondents]

- Unrealized gains: 17%
- Unrealized losses: 22%
- Net unrealized gains/losses: 24%
- Deferred hedging gains/losses: 9%
- Notional amount outstanding in total: 58%
- Notional amount outstanding by product type: 51%
- Total revenue: 18%
- Revenue by product type: 8%
- Maturity profile by notional amount: 20%
- Maturity profile by exposure: 8%
- Credit profile by notional amount: 8%
- Credit profile by exposure: 9%
- Description of accounting policy: 42%
- Description of risk management policy: 32%
- Other: 8%

Key
- Current
- Planned

Note: Percentages may not sum to 100 percent due to rounding or multiple responses. Values less than 10% may not be shown.
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