SECTION I: INTRODUCTION

On April 8, 2008 E. Gerald Corrigan, Managing Director, Goldman Sachs, and Douglas Flint, Group Finance Director, HSBC Holdings Plc, announced the formation of the Counterparty Risk Management Policy Group III (CRMPG III or the Policy Group). This initiative, triggered in part by the guidance of the President's Working Group on Financial Markets, was undertaken in order to provide a private sector response to the credit market crisis of 2007 and 2008 in a manner that complements the published work of a number of official bodies, including the President's Working Group on Financial Markets, the Senior Supervisors Group and the Financial Stability Forum, as well as the efforts of the private-sector based Institute for International Finance.

The scope of the CRMPG III initiative was designed to focus its primary attention on the steps that must be taken by the private sector to reduce the frequency and/or severity of future financial shocks while recognizing that such future shocks are inevitable, in part because it is literally impossible to anticipate the specific timing and triggers of such events.

The CRMPG III effort has focused its attention on four closely related and forward-looking aspects of financial reform and rehabilitation, including: (1) a reconsideration of the standards for consolidation under US GAAP that contemplates a significant shift of currently off-balance sheet entities to on-balance sheet status; (2) measures to better understand and manage complex financial instruments with particular emphasis on their distribution and how their risk sensitivities are disclosed; (3) risk monitoring and risk management with particular emphasis on the role of sound corporate governance and the relationship between liquidity, leverage and capital adequacy; and (4) a series of sweeping measures to enhance the resiliency of credit markets in particular and financial markets more generally with particular attention to strengthening the safeguards associated with the OTC derivatives markets with emphasis on credit default swaps (CDS). Among other things, this section of the Report urges swift industry action to create a clearinghouse for OTC derivatives, starting with CDS.

The Policy Group chose to focus on these four areas in the belief that these are the ones in which it could add the greatest value. In making that judgment, the Policy Group was

mindful that there are other vital areas of inquiry that will not be covered in this Report. Examples of such areas include the need to improve the loan origination and oversight process and the equally obvious need to improve the working of the credit ratings process. In these and other areas, the Policy Group concluded that ample attention is being devoted to these issues by others who are well positioned to identify and implement needed reforms.

The background to this effort is, of course, the chain of events that is now properly labeled the credit market crisis of 2007 and 2008. In retrospect, these events clearly stand out as the most severe financial shock we have witnessed in decades with visible damage not only to the financial sector but extending to the real economy as well. Indeed, the cost of the credit market crisis in economic, financial and human terms has already reached staggering proportions and, even after 12 months, substantial vulnerabilities remain.

The write-downs experienced by large integrated financial intermediaries – especially in the United States and Europe – are also of staggering proportions. It is probably fair to say that, as late as the summer of 2007, virtually none of us would have imagined that, as of July of 2008, financial sector write-offs and loss provisions would approach $500 billion, even as the write-off meter is still running. Fortunately, the starting capital positions of the affected institutions were relatively strong and, even more fortunately, most of these institutions have been able to raise very large amounts of additional capital in recent months.

Even with the benefit of hindsight, there exists a large and troubling question as to the manner in which events unfolded beginning in the July to August interval of 2007. Namely, why were so many, in both the official and private sectors, so slow in recognizing that we were on the cusp of a financial crisis of the magnitude we have experienced? The list of possible explanations is long. For example, it could be that the underlying complexity and risk characteristics of certain financial instruments were so opaque that even some of the most sophisticated financial institutions in the world and their supervisors were simply caught off guard. A much more plausible explanation lies in the fact that the preceding eight to ten years had witnessed multiple financial disturbances with multiple causes – all of which resolved themselves with limited damage and negligible contagion. These experiences undoubtedly gave rise to a false sense of

security that the emerging problems of the summer of 2007 would also resolve themselves with little or no systemic damage.

Much has been written and said about the underlying causes of this systematic failure in financial discipline. For that reason, the Policy Group does not wish to repeat that litany in any detail, but it does see some value in briefly highlighting what it considers the most critical of these underlying causes of the credit market crisis:

> First: for several years running, global financial markets had been awash with liquidity. This condition reflected in part the recycling of (1) excess savings from Asia in general and China in particular and (2) excess cash from energy producing countries. It may also have reflected the phenomenon of an extended earlier period of very low interest rates, especially in the United States. These factors are also related to global economic and financial macroeconomic imbalances that have long been recognized as potential sources of instability.
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> There can be no doubt that ample financial market liquidity and relatively low interest rates were an important driving force behind the pervasive “reach for yield” phenomenon of recent years and that the “reach for yield” phenomenon was, in turn, an important factor in driving the surge in demand for and supply of highly complex structured credit products.
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> Second: reflecting in part the forces discussed above and the intensity of competitive factors in the financial marketplace, it is clear that credit risk had been mispriced for some time. The evidence of this is clear in the terms and conditions of credit extensions in the subprime mortgage market, in the leveraged finance sector, and in the willingness of market participants to acquire highly leveraged structured credit products whose attractiveness relied on a continuation of benign credit conditions for an extended period of time. More generally, the extraordinary tightness of credit spreads across virtually all classes of credit products was widely seen as unsustainable. In these circumstances, it was recognized that, sooner or later, credit spreads and credit terms would inevitably adjust. However, it was all too easy for many, if not most, market participants to conclude that when the

correction took place it would be gradual and orderly. Obviously, that conclusion was wrong.

Third: for a variety of reasons – some structural, some technological and some behavioral – contemporary finance has become incredibly complex. We see this in the speed and complexity of capital flows, we see it in the complexity of many classes of financial instruments (some of which contain significant embedded leverage), and we see it in the extraordinary complexity faced by individual financial institutions in their day-to-day risk management activities and in their policies and practices related to valuation and price verification for some classes of financial instruments. Needless to say, the complexity factor is an issue as it pertains to the capacity of the international community of supervisors and regulators to discharge their responsibilities.

The key issue here is not complexity *per se* but rather the extent to which complexity feeds on itself thereby helping to create or magnify contagion risk "hot spots" that may have systematic implications. Thus, we are faced with the pressing need to find better ways to manage and mitigate the risk associated with complexity, a subject that will continue to challenge the best and the brightest among us.

Fourth: reflecting in part the forces described above, the current crisis has witnessed patterns of contagion the speed and reach of which are different in degree, if not kind, from that which we have witnessed in earlier periods of financial instability. The list is long: asset-backed commercial paper, conduits, structured investment vehicles (SIVs), collateralized debt obligations (CDOs), quantitative funds, auction rate securities, monolines, and hedge funds. To a considerable extent, the "hot spots" where contagion forces have emerged share at least three common denominators: (1) the contraction in market liquidity, which has been largely driven by a huge shift from risk taking to risk aversion, was itself driven by the fear of the unknown and a limited ability to anticipate with confidence the sensitivity to loss in many financial instruments; (2) greater leverage in balance sheet terms and in the use of off-balance sheet vehicles and the presence of embedded leverage in certain classes of financial instruments; and (3) risk

mitigation cushions which were either too thin or were at least partially neutralized by basis risk developments.

Fifth: it is likely that flaws in the design and workings of the systems of incentives within the financial sector have inadvertently produced patterns of behavior and allocations of resources that are not always consistent with the basic goal of financial stability. Often, when the issue of incentives is discussed, the focus is on compensation and, especially, executive compensation. Consistent with the priorities of this Report noted earlier, the Policy Group has chosen not go into the subject of executive compensation in any detail. Having said that, the Policy Group recognizes that more can be done to ensure that incentives associated with compensation are better aligned with risk taking and risk tolerance across broad classes of senior and executive management. Accordingly, and respecting the role and responsibilities of the board of directors in matters relating to executive compensation, the Policy Group believes that compensation practices as they apply to senior and executive management should be (1) based heavily on the performance of the firm as a whole and (2) heavily stock-based with such stock-based compensation vesting over an extended period of time. The long vesting period is particularly important for high risk, high volatility lines of business where short run surges in revenues and profits can be offset if not reversed in the longer term. In broad terms, the Policy Group recognizes that this philosophy of compensation is hardly new, but its importance looms especially large given the events of the past twelve months.

While the linkage between incentives and compensation is obvious for large integrated financial intermediaries, the incentive question has much broader – and no less important – implications. For example, the framework of incentives at the level of individual firms should help to balance business imperatives by ensuring that the resource base and the recognition/reward system for the support and control functions are such that critical tasks, such as risk monitoring and price verification, are performed in a manner that protects the financial integrity and professional reputation of the institution.

While the Policy Group believes that the five factors citied above were the primary underlying forces driving the credit market crisis, there were, of course, many contributing factors. Some observers cite that what they see as the unintended consequences of applying fair value accounting as a contributing factor, particularly as it applies to complex financial instruments that, in periods of stress, tend to be relatively illiquid and difficult to value reliably. Others see fair value accounting as a powerful source of discipline on the risk-taking process. As discussed later, in the "Emerging Issues" section of this Report, there are many facets of the fair value question, not the least of which is framing an alternative to fair value which does not further undermine the already damaged credibility of the financial sector.

Alongside the fair value question, there is an even larger question that the events of the past twelve months have raised. Namely, have changes in the workings of the financial system, such as the ability to "short credit" or the greater importance of the "originate to distribute" model of financial intermediation, made the financial system more accident prone or unstable? This is not an academic question particularly since the period from 1980 has witnessed four or five serious financial shocks that resulted in some form of extraordinary official intervention.

In looking at the post-1980 period (and in looking at the broad sweep of financial history), it is difficult to conclude that the cause of systemic financial shocks can be attributed to particular financial instruments (*e.g.*, the credit default swap) or particular classes of activity (*e.g.*, securitization), even if it can be argued that such factors may have amplified the credit market crisis. Indeed, one of the most striking observations about financial shocks is the fact that each episode tends to have its own unique triggers and dynamics. While the triggers and dynamics are unique, there is evidence of certain common denominators across all the post-1980 financial crises. There are at least four common denominators, with one possible "wild card" looming in the background: (1) credit concentrations, (2) broad-based maturity mismatches, (3) excessive leverage, and (4) the illusion of market liquidity – or the belief that such liquidity will always be present so that the individual instruments or classes of instruments can be bought or sold in an environment of narrow bid-ask spreads. The wild card is periodic macroeconomic imbalances, including such forces as inflation, recession, budget deficits, and large external imbalances. Directly or indirectly, such macroeconomic forces have played a role

in contributing to the ebbs and flows of opinion and expectations regarding the outlook for financial market behavior, thus contributing to the tendency for financial markets to overshoot in both directions.

At the end of the day, however, the root cause of financial market excesses on both the upside and the downside of the cycle is collective human behavior: unbridled optimism on the upside and fear on the downside, all in a setting in which it is literally impossible to anticipate when optimism gives rise to fear or fear gives rise to optimism.

The fact that financial excesses fundamentally grow out of human behavior is a sobering reality, especially in an environment of intense competition between large integrated financial intermediaries which, on the upside of the cycle, fosters risk taking and on the downside, fosters risk aversion. It is this sobering reality that has, for centuries, given rise to universal recognition that finance and financial institutions must be subject to a higher degree of official oversight and regulation than is deemed necessary for virtually all other forms of commercial enterprise. However, official oversight is not a substitute for the effective management of financial institutions, which is, and should remain, a private-sector function. Yet here too there is a dilemma; namely, in a competitive marketplace it is very difficult for one or a few institutions to hold the line on best practices, much less for one or a few institutions to stand on the sidelines in the face of booming markets.

What is needed, therefore, is a form of private initiative that will complement official oversight in encouraging industry-wide practices that will help mitigate systemic risk. The recommendations in this Report have been framed with that objective in mind. However, the Policy Group believes there is considerable merit to overlaying these detailed recommendations with five "core precepts" of behavior that all large integrated financial intermediaries should follow in the interest of helping to contain systemic risk factors and promote greater stability.

Mitigating Systemic Risk: Core Precepts for Large Integrated Financial Intermediaries

The complexities of the control and risk management tasks facing large integrated financial intermediaries are extremely difficult to appreciate and understand even for

highly sophisticated observers. Indeed, recent experience suggests that senior management of such institutions may not always fully grasp the scale and complexity of these control and risk management challenges. In these circumstances, it is not at all surprising that recent weeks and months have witnessed the publication of thousands of pages of text flowing from dozens of individuals and organizations all devoted to the credit market crisis in general and more specifically to explaining what happened, why it happened and what steps can be taken in the future to reduce the incidence of systemic financial shocks or at least limit or contain the damage associated with such events when they occur.

While there are many good ideas about the future that are now on the table for discussion, the Policy Group is strongly of the view that the focus on the complexity of the subject matter tends to blur the fact that in this world of financial complexity there are certain relatively simple, readily understandable, and forward-looking core precepts upon which the management and supervision of large integrated financial intermediaries must rest. These precepts are relatively easy to communicate to employees, to boards of directors, to investors and to supervisors. Moreover, they lend themselves to relatively straightforward evaluation exercises on the part of boards of directors and supervisory bodies. These precepts are in no way a substitute for the front-line "blocking and tackling" imperatives that are at the center of all control and risk management systems. If anything, they provide the intellectual and policy framework which helps to ensure that the working level, control-related policies and procedures are both robust and flexible over business and credit cycles.

While the Policy Group has developed these core precepts with an eye to their application to large integrated financial intermediaries, systemic risk concerns may arise from institutions that may not seem to fit this description. Thus, while the Policy Group's emphasis is on large integrated financial intermediaries, these core precepts have broader applications.

At the risk of considerable oversimplification and with the recommendations contained in the balance of this Report in mind, the Policy Group believes that these core precepts can be reduced to five categories as discussed below.

Precept I: The Basics of Corporate Governance

Corporate governance is a subject that is often taken largely for granted. However, as described in the March 6, 2008 Report of the Senior Supervisors Group, the culture of corporate governance at individual financial institutions can have a very large bearing on how well or how poorly individual institutions respond to periods of large-scale instability if not outright crisis. For example, risk monitoring and risk management cannot be left to quantitative risk metrics, which by their nature are backward looking. Rather, and particularly in times of stress, risk management must rely heavily on judgment, communication and coordination, spanning the organization and reaching to the highest levels of management. Among other things, this culture of governance will help to break down the silo mentality that can all too easily be associated with individual business units. More broadly, this culture of governance can go a long way to help ensure that critical information on risk profiles, institution-wide exposure and potential channels of contagion are matters of rigorous and continuous attention, not only at the level of risk managers, but also at the highest levels of management.

Of equal importance, the culture of corporate governance must ensure that critical control personnel in such areas as risk monitoring, credit, operations, internal audit, compliance and controllers (with special emphasis on the professionals responsible for position valuations and price verification) are truly independent from front-line business unit personnel, not only in a reporting context but also in a decision-making context. Similarly, corporate governance must ensure that support and control functions have the status and the resources to appropriately sustain the control environment across all risk- taking business units. As an extension of this principle, large integrated financial intermediaries should aggressively seek out opportunities to rotate high-potential individuals between income-producing functions and support/control functions. Finally, the culture of corporate governance must also ensure that incentives – including, but by no means limited to, compensation – are properly aligned so as to foster commercial success over time and discourage short-run excesses in risk taking.

There is no single blueprint for achieving a sound framework of corporate governance, much less a common organizational framework to ensure that result. Many variables – ranging from the business model to the leadership style of top management – enter into the equation for success. However, at the end of the day, corporate governance reduces to behavior and incentives, not the vagaries of organizational charts. Accordingly, the Policy Group recommends that, from time to time, all large integrated financial intermediaries must examine their framework of corporate governance in order to ensure that it is fostering the incentives that will properly balance commercial success and disciplined behavior over the cycle while ensuring the true decision-making independence of key control personnel from business unit personnel.

Precept II: The Basics of Risk Monitoring

The most sophisticated risk management models and metrics are only as good as the ability of individual institutions to monitor all positions and risk exposures on a timely basis. For example, large integrated financial intermediaries should have in place the systems to compile, within a matter of hours, estimates of comprehensive counterparty exposure information on a given day based on the prior day's close of business. Timely access to such information helps to ensure that risk metrics are providing the proper signals, but of greater importance, such timely information facilitates meaningful insights into concentrated positions and crowded trades. Such insights help to make better and more informed judgments about contagion and systemic threats and how to better manage counterparty risk in times of stress when models and metrics are most prone to providing false signals. Accordingly, the Policy Group recommends that all large integrated financial intermediaries must have, or be developing, the capacity (1) to monitor risk concentrations to asset classes as well as estimated exposures, both gross and net, to all institutional counterparties in a matter of hours and (2) to provide effective and coherent reports to senior management regarding such exposures to high-risk counterparties.

Precept III: The Basics of Estimating Risk Appetite

Estimating risk appetite and finding an adequate risk-reward balance must be a dynamic process that is built on a blend of qualitative and quantitative factors. Because judgments about risk appetite and risk-reward must take account of both quantitative and qualitative factors, the determination of risk appetite and risk-reward at a given point in time cannot be estimated by reliance on even a family of highly sophisticated stress tests.

Stress tests and other quantitative tools are necessary, but by no means sufficient, tools for making judgments about risk appetite. In point of fact, stress tests, when combined with carefully constructed scenario analyses, can be helpful, but even under the best of circumstances, stress tests can never anticipate how future events will unfold unless such tests are so extreme as to postulate outcomes that no level of capital or liquidity will provide protections against potential failure. Finally, because risk appetite must also take account of inherently judgmental factors such as compensation systems and the quality of the control environment, excessive reliance on quantitative tools may produce results that lack credibility with top management and boards of directors and are insufficient, if not misleading, as a basis for prudential supervision.

In other words, estimating acceptable thresholds of risk appetite is more an art than a science. Of necessity, the process must rely on multiple classes of quantitative inputs, including a family of scenario analyses and stress tests. At best, however, the quantitative inputs can provide insights into a range of potential loss estimates that help to guide judgments about risk appetite. The more difficult task for senior management, boards of directors and prudential supervisors is how to build into the risk appetite exercise the necessary judgments as to factors such as incentives, the quality of the control environment, the point in the business cycle and other qualitative inputs that should temper the quantitative factors either to a higher or lower appetite for risk. Accordingly, the Policy Group recommends that all large integrated financial intermediaries must periodically conduct comprehensive exercises aimed at estimating risk appetite. The results of such

exercises should be shared with the highest level of management, the board of directors and the institution's primary supervisor.

Precept IV: Focusing on Contagion

Contagion or the channels and linkages through which local financial disturbances can take on systemic characteristics are by their nature largely unpredictable. However, the basic forces that give rise to contagion are reasonably well known and recognized. That is, in looking at the long history of financial crises, several common denominators are evident, even if the precise triggers that unleash these contagion forces tend to be unique to each individual financial shock. As noted earlier, those common denominators almost always involve most, if not all, of the following: (1) credit concentrations; (2) broad-based maturity mismatches; (3) excessive leverage either in balance sheet terms or in the form of leverage that is embedded in individual classes of financial instruments; and (4) the illusion of market liquidity or the belief that such liquidity will always be present such that individual instruments or classes of instruments can readily be bought or sold in an environment of narrow bid-ask spreads.

While we are unable to anticipate the precise triggers that will unleash contagion forces in future crises, we should be able to do a much better job of building into risk management frameworks ongoing analysis and brainstorming about contagion risks, especially on the upside of the cycle when slippages in financial discipline typically take hold. Clearly, the last twelve months or so have put the spotlight on certain practices that, with the benefit of hindsight, bring into sharp focus the role that the common denominators of contagion played in the credit market crisis.

Looking to the future, the Policy Group recommends that all large integrated financial intermediaries must engage in a periodic process of systemic "brainstorming" aimed at identifying potential contagion "hot spots" and analyzing how such "hot spots" might play out in the future. The point of the exercise, of course, is that even if the "hot spots" do not materialize or even if unanticipated "hot spots" do materialize, the insights gained in the brainstorming exercise will be of considerable value in managing future sources of contagion risk.

Precept V: Enhanced Oversight

Large integrated financial intermediaries are subject to oversight by their boards of directors and by official supervisory bodies. While the nature of the oversight functions of boards and supervisors are quite different, the discharge of their respective responsibilities are complementary since both groups share the common goal of seeking to ensure the commercial viability and stability of large integrated financial intermediaries.

The primary responsibility of boards of directors of any public company is to act on behalf of the shareholders. A board must provide an appropriate degree of oversight of the company consistent with the goal of maximizing shareholder value over time. The exercise of these oversight responsibilities in today's business environment is a demanding and time-consuming process, especially for boards of large integrated financial intermediaries. Aside from their oversight duties, boards have certain explicit responsibilities including the authority to hire or to fire the CEO and other executive officers and to approve compensation arrangements for such executive officers. As a part of their responsibility for determining compensation arrangements, boards also need to ensure that compensation-related incentives are properly aligned with the best long-term interests of the company and its shareholders.

The challenges facing directors of large integrated financial intermediaries are formidable since there are limits as to the extent to which outside independent directors can be expected to fully grasp all of the risks associated with the day-to-day activities of such institutions. What they can do, and what management can help them do, is to ask the right questions and insist that they have the information – properly presented – that allows them to exercise their oversight responsibilities.

Prudential supervisors also have oversight responsibilities for financial institutions. However, the authority vested in most supervisory authorities is very broad in that they may prescribe very specific standards of behavior. In addition, in extreme conditions, supervisory authorities typically have the power to, in effect, replace

management, require institutions to raise capital, sell assets or take virtually any necessary steps to preserve the viability of such individual institutions.

As noted above, the oversight roles of boards of directors and supervisors are, in many respects, complementary. That being said, the Policy Group believes that there is a relatively simple way to reinforce the effectiveness of these oversight responsibilities. Specifically, the Policy Group recommends arrangements whereby the highest-level officials from primary supervisory bodies should meet at least annually with the boards of directors of large integrated financial intermediaries. The purpose of the meeting would be for the supervisory authorities to share with the board of directors and the highest levels of management their views of the condition of the institution with emphasis on high-level commentary bearing on the underlying stability of the institution and its capacity to absorb periods of adversity. The details of examination and inspection reports should not be discussed except to the extent that such reports relate in a material way to underlying stability issues. Obviously, this format would help to stimulate an exchange of views between the supervisors and the boards, which in turn should help each to better discharge their respective oversight duties. If these arrangements – which already exist in some jurisdictions – are to achieve their objective, it is essential that the spokesperson from the supervisory body be a true policy level executive or, preferably, a principal of the supervisory body. Finally, these high level exchanges of views should minimize the use of quantitative metrics and maximize the use of discussion and informed judgment.

These general recommendations may have to be adapted to the legal and cultural context of the nations and jurisdictions where they apply. Notably, the precise role of the board of directors, on the one hand, and supervisory bodies, on the other, differs somewhat according to country laws and by jurisdiction. The main variation relates to the management responsibility that is borne exclusively by the executive management in countries where the board of directors is a pure oversight body. In such jurisdictions, it may be more appropriate for the supervisory authorities to communicate their conclusions to the full supervisory board through a written assessment and to meet, along with executive management, with the committee of

the board best equipped to participate knowledgeably in a discussion of the underlying stability of the institution.

Summary

The core precepts and the recommendations contained in the following sections of this Report are a "package deal". That is, success in achieving any one of the core precepts and recommendations is dependent on achieving success in the others. Moreover, partly because of competitive realities and partly because of practical realities, no one institution can, by itself, accomplish all that needs to be done in restoring the credibility of the industry, much less provide some reasonable assurance that we can better limit or contain the damage associated with future financial shocks.

What is needed to achieve that result, therefore, are collective and concerted industry-wide initiatives supported by progressive and enlightened prudential supervision conducted in the spirit of the March 6, 2008 Report of the Senior Supervisors Group. In the private sector, greater financial discipline at individual institutions must be reinforced by a renewed commitment to collective discipline in the spirit of "financial statesmanship" that recognizes that there are circumstances in which individual institutions must be prepared to put aside specific institutional interests in the name of the common good.

The reforms contemplated by this Report (and other similar reports) will not be easy, and they surely will not be inexpensive to implement, especially in the current environment with its extraordinary pressures on the bottom line. However, costly as these reforms will be, those costs will be minuscule compared to the hundreds of billions of dollars in write-downs experienced by financial institutions in recent months, to say nothing of the economic dislocations and distortions triggered by the credit market crisis.

All of this requires leadership which starts with the highest levels of management. There will be occasions when such leaders must be prepared to instruct their subordinates to find "ways to get things done" rather than finding ways to stifle needed change and reform. Nowhere, perhaps, is this imperative more essential than it is regarding the material covered in Section V of this Report regarding financial infrastructure and the need to enhance market resilience.

Finally, financial institutions and their supervisors must avoid the mistakes that were made following the publication of CRMPG II almost three years ago to the day. In some areas, the follow-up and implementation of recommendations in CRMPG II were good. In other areas, the follow-up by individual firms and their supervisors was poor and certainly was not sustained. In some of the areas covered by this Report (notably the material in Section V on Enhanced Credit Market Resiliency), there is a built-in framework for follow-up in the form of ongoing coordination and cooperation between the dealer community, on the one hand, and the Federal Reserve Bank of New York and other official groups, on the other hand.

In an effort to ensure implementation of these enhancements, the Policy Group strongly urges that all major financial institutions should analyze their internal policies, procedures and practices against the recommendations and reforms outlined in this Report. Senior management at these institutions should ensure ongoing monitoring of progress in relation to these reforms.

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