ISDA

International Swaps and Derivatives Association, Inc.
One New Change
London, EC4M 9QQ
Telephone: 44 (20) 7330 3550
Facsimile: 44 (20) 7330 3555
email: isda@isda-eur.org
website: www.isda.org

June 17, 2002

Dear Colleague,

Determination of Cash Settlement Reference Banks under ISDA-documented transactions

We are writing to you in our capacity as Chairmen of ISDA's Operations Committee and Trading Practice Committee. In both these fora, ISDA members have recently discussed the issue of when in the life of a deal it is necessary to determine which institutions should act as Reference Banks for Cash Settlement, whether in relation to early termination of swaps or the exercise of swaptions.

In particular, members have noted in the market a continued tendency to assume that it is necessary to specify in trade confirmations the names of reference banks; and have identified this supposed requirement as a formality which may be contributing unnecessarily to confirmation backlogs. Such backlogs are to the detriment of individual firms and to the market as a whole.

With the introduction of the '2000 ISDA Definitions' booklet, introduced in 2000 to reflect the evolution of market practice with regards to OTC derivatives, firms have ample scope to resolve the issue of nominating Cash Settlement Reference Banks, without having to do so in the related trade confirmation at the time of execution of a deal. Specifically, section 17.2(g) of the Definitions [1] foresees a series of fallbacks — including the ability to choose from the panel of banks that contributes to ISDAFIX rates in any of the major currencies [2]— for circumstances where firms have not nominated reference banks in the trade confirmation.

As a practical measure, it would be helpful if, for deals transacted under ISDA documentation, your firm could ensure that it removes any field requiring the names of Cash Settlement Reference Banks, other than where this is explicitly required in the trade confirmation by the counterparties. As mentioned above, we believe that moving away from the presumption that it is necessary to specify reference banks should contribute to a reduced potential for trade-confirmation backlog.

A full list of ISDA members is attached as Annex 3.

---

[1] Reproduced as Annex 1
[2] ISDAFIX swap rates are published daily at Reuters pages ISDAFIX1/2/...at 11 am Local time, for US dollars, euro, yen, sterling Swiss francs and, from June 2002, Hong Kong dollars, in a range of maturities.

If you have any questions or comments on this request or on the matter more broadly, please would you address them to one of the following at ISDA:

Richard Metcalfe (London) rmetcalfe@isda-eur.org / +44 20 7330 3550
Louise Marshall (New York) lmarshall@isda.org / +1 212 901 6014
Karel Engelen (New York) kengelen@isda.org / +1 212 901 6012

Yours faithfully,

(For the ISDA Trading Practice Committee)

Jonathan Moulds,
Head of Global Rates,
Bank of America

Tim Frederickson,
Managing Director and Global
Head of Fixed Income Derivatives
and Government Bonds,
UBS Warburg

(For the ISDA Operations Committee)

Stefano Toffolo,
Director, Global Head of OTC
Derivatives Operations
CSFB

Daniel McDonagh,
Managing Director, Head of Fixed
Income Operations, North America,
JP Morgan Chase