

# ISDA

International Swaps and Derivatives Association, Inc.

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## **2004 Americas Interdealer Master Equity Derivatives Confirmation**

The International Swaps and Derivatives Association, Inc. (ISDA) published on **March 29, 2004** the **2004 Americas Interdealer Master Equity Derivatives Confirmation Agreement** (the “Master Confirmation”) covering Index Options, Index Swaps and Index Basket Swaps, Share Options, and Share Swaps and Share Basket Swaps on U.S. underliers. ISDA has also published the March 2004 Canadian Supplement to the Master Confirmation for transactions on Canadian underliers.

The publication of this Master Confirmation reflects ISDA’s goal of streamlining the process supporting OTC equity derivatives trading through the creation and promotion of standardized documentation. The Master Confirmation was created by an ISDA working group of thirty dealers and six law firms in order to encourage wholesale adoption of the 2002 ISDA Equity Derivatives Definitions (the “2002 Definitions”) and to simultaneously address large numbers of unsigned equity derivatives confirmations amongst the dealer community. This Master Confirmation is not intended to be a master confirmation for OTC equity derivative transactions with entities that are not dealers, as many dealers’ elections under the 2002 Definitions differ depending on the particular risks that they are hedging. The interdealer market is generally used by market participants to hedge certain risks incurred in connection with a dealer’s portfolio of derivative transactions with its customers. For example in share options, dealers often hedge vega and gamma risk with other dealers and structure their transactions differently from transactions with a customer who is looking to hedge its price risk to a long position in a particular stock.

The Master Confirmation, which dealers will enter into bilaterally, incorporates the 2002 Definitions, is subject to the applicable ISDA Master Agreement between such dealers, includes four General Terms Confirmations (each an Annex) with agreed upon house elections, and is supplemented with a related Transaction Supplement including trade details. Dealers may also agree on a bilateral basis to subject outstanding trades to the Master Confirmation on a retroactive basis.

Future annexes to the Master Confirmation will cover volatility/variance swaps and options, and a future supplement will cover ADRs. Additional product annexes and supplements may be developed as and when members believe they are warranted. ISDA plans to develop a similar master confirmation for the Japanese market. Depending on levels of member support, ISDA may do the same for other regional markets.