Summary of Trading in shares on the KRX - November 26 AEJ Market Discussion on 3 December 2007

Thank you for joining today's conference call to discuss shares that traded and closed limit-up on the Korea Exchange on Monday, 26 November 2007 and the resulting treatment of AEJ share variance swaps.

The group addressed the following questions in the context of an executed 2007 AEJ Master Variance Swap Confirmation Agreement (AEJ Variance MCA) (which removes the concept of Calculation Agent materiality determination of a Market Disruption Event [MDE]) between the parties:

1. Did a Trading Disruption occur on the KRX on shares that closed limit-up on 26 November / was 26 November a Disrupted Day?
2. If so, how did firms adjust their affected share variance swaps?
3. Will a share closing limit-up / limit-down always constitute a Trading Disruption?

Firms that expressed a view on the call were in agreement that a Trading Disruption occurred on 26 November because trading was limited (and firms were unable to hedge) in the one hour period prior to the relevant Valuation Time. As a result of the MDE, and consistent with terms set out in the AEJ Variance MCA, firms agreed that 26 November was a Disrupted Day and that the volatility for that Observation Day would be zero (i.e Pt would be deemed to equal Pt-1 for such day in the numerator of the calculation of FRV). Assuming that parties had relied on a generic definition of N as the expected number of Scheduled Trading Days (and not specified a numerical N in the Transaction Supplement), the denominator would remain unchanged.

One firm noted that its traders were pleased with the terms in the AEJ Variance MCA and the certainty it provides on whether limit-up/down is a Market Disruption Event. The recent LSE disruption was cited as another example where there was more certainty in approach to MDE determination for variance swaps (under the EU Variance MCA). Recent events in Japan with respect to Nintendo and other shares were cited as an example where there was a lack of certainty around treatment of variance swaps (under the Japanese Variance MCA) and no consensus was determined.

Firms also discussed another scenario in which a limit-up occurs but a bid-only market exists (or limit-down with an offer-only market). This situation could result in restricted hedging for dealers (especially at the end of the day) due to the existence of a bid-only market – especially if the hedge against an option or variance swap was to buy shares at the close. One firm questioned whether this specific scenario constituted a "limitation imposed on trading by the relevant Exchange". Another firm commented on the importance of clarity and agreement on what specific events trigger an MDE. In response, another firm stated that as long as there is a bid and offer, the share can be traded and an MDE would not be deemed to occur. Another firm added that you cannot always see on Bloomberg what is going on with bids and offers and that even with a limit up/down, there can be a closing price. Another firm noted that getting into a discussion of available bids/offers in the context of a limit-up/down, will create additional issues around adjustments, valuations etc. and questioned whether there was really a need to revisit the published provisions in the AEJ Variance MCA.

Firms acknowledged that narrowing the scope of what constitutes a limit up/down was not an issue that the group would be able to fully address today and that firms may want to consider further discussion on the topic.

Please let ISDA know if you are interested in additional discussions around daily price limits and Market Disruption Events under the AEJ Variance MCA.

<u>Participating firms</u>:
Ashurst
Barclays Capital
Bear Stearns
BNP Paribas
Credit Suisse
Deutsche Bank
Goldman
KBC
Lee & Ko
Lehman
Merrill Lynch
Morgan Stanley
Susquehanna Pacific
UBS