GUIDE TO THE CODE OF SWAPS

1986 Edition

This Guide illustrates how the Code of Standard Wording, Assumptions and Provisions for Swaps, 1986 Edition (the "1986 Code"), can be used to simplify greatly the documentation of a rate swap. The 1986 Code can be used for fixed-to-floating rate swaps and for floating-to-floating rate swaps, whether simple or complex.

The 1985 Edition of the Code covered two principal subjects that continue to be essential parts of the 1986 Code: cash flows of a rate swap (Code Articles 1 through 10) and calculation of amounts payable upon early termination of a rate swap (Code Articles 11 and 12). These provisions have been refined in the 1986 Code to facilitate the use of integrated master agreements and to provide for compounding of Floating Amounts. The 1986 Code also adds many important new provisions, including definitions of various possible Events of Default and Termination Events (Code Sections 11.7 and 11.8), a list of representations (Code Article 15), a list of agreements (Code Article 16), definitions relating to Specified Entities, which are designed to simplify documentation for rate swaps in which a party's obligations are guaranteed or supported in some way by another entity (Code Article 17), cross border provisions (Code Article 18), and withholding tax provisions (Code Article 19).

Like the 1985 Edition, the 1986 Code is not a contract. The payment obligations of the parties to a rate swap arise from the terms of their agreement. Parties may adopt the 1986 Code (or, if they prefer, may adopt the 1985 Edition of the Code) in its entirety as the general basis of their contract, either in a master agreement or in an agreement for an individual rate swap. They may also incorporate certain portions of either edition of the Code without incorporating others. In either case, they may specify variations in or additions to the provisions they incorporate. Express provisions in a contract always will override anything to the contrary in the Code.

On many points, the 1986 Code creates a rule to apply in the absence of any express provision by the parties in their agreement. On other points, the 1986 Code creates a menu of choices for use by the parties in deciding a particular matter. Such menu choices are intended only to suggest possible provisions to be considered by the parties and are not required to be included in any particular contract.

I. USING THE 1986 CODE TO ESTABLISH THE CASH FLOWS OF A TYPICAL RATE SWAP

If parties incorporate the 1986 Code into an agreement, they need only specify a few brief payment terms. This aspect of the Code remains unchanged in the 1986 Code. For example, for a "plain-vanilla" rate swap involving an exchange of semiannual fixed payments for semiannual floating payments, with the Floating Rate reset at the beginning of each semiannual period, only the following terms need be specified:

- Fixed Rate Payor and Floating Rate Payor. Code Sections 2.1 and 2.2.
- Effective Date. Code Section 3.2.