

INTRODUCTION

The introduction of the single currency in Europe will have profound implications for the financial markets, none more so than trading in privately negotiated derivative transactions. Indeed, the flexibility of derivatives and their application to an array of underlying risks means that the changes unleashed by the euro in the money, foreign exchange, bond and equity markets are all relevant to derivatives. The implications of the euro for trading, settlement, documentation, operations, accounting, tax, capital and risk management in all these markets need to be considered. This presents the practitioner with the need for information from an number of public and private sources in order to get a clear picture of the changeover process.

This book is designed to address this need, by providing ISDA members and other market participants with a comprehensive guide to the impact of EMU on derivatives businesses and with copies of the key reference documents that are needed to plan for the changeover.

ISDA's Role in Preparing for EMU

This guide represents the culmination of two years of work by ISDA members, staff and consultants to address the implications of EMU for derivatives. From an early stage, ISDA has taken an active role in preparing for the euro, forming a number of key task forces (see Figure 1) and focusing on the practical implications of the new single currency for our industry. This work has been guided by a desire to promote legal certainty for the new currency, to ensure a parallel transition for the cash and derivatives markets, and to provide ISDA members with early, authoritative information about the mechanics of the changeover.

I am proud of the Association's considerable achievements over the past two years in these areas. We have led the successful effort to adopt legislation ensuring continuity of contracts in both the European Union and New York. We have succeeded in establishing common market conventions for the euro. We have achieved significant progress in resolving the problems raised by disappearing price sources. We have clarified tax implications of EMU. We have also provided a mechanism for members to address the impact of EMU on outstanding transactions and have published comprehensive guidelines for the operations implications of EMU.

Organisation of this Guidebook

All of this work is either described or reproduced in this guidebook – along with the many other areas of ISDA's EMU activities.

This guidebook is organised as follows:

- In the following section, ISDA provides a market-by-market overview of the impact of EMU, summarising the key transition issues and implications for derivatives. This is designed as a high-level overview and refers the reader to relevant documents or source material (much of which is reproduced) in order to look into any particular question in further detail.
- ISDA then looks at a number of overarching issues relating to EMU: the legal, accounting, tax and risk management implications. This includes a user-friendly summary of the main provisions of the EU regulations on the legal status of the euro.
- Section V of the book reproduces the full text of ISDA's guidance on the

implications of EMU for derivatives back office operations. This reflects the consensus of the Association's EMU Operations Task Force, following lengthy discussion and consultation, and provides an outline of the common approach market participants expect to take on numerous detailed operational issues.

- The annexes to this book reproduce key EMU source material that market participants need to prepare for the transition, including copies of relevant EU and New York legislation and information on price sources, bond redenomination, harmonised market conventions and other matters.
- Lastly, the guidebook includes a user-friendly glossary and a reference to other important EMU sources.

These achievements were only possible because of the major contribution made by ISDA members. I am therefore very grateful to all those individuals who attended and took part in our various EMU Task Force and Working Group meetings. In particular, I am grateful to the current and past Chairmen of our EMU Task Forces, Stephen Greene and Jeanette Whomersley of CSFP, Anneli Peshkoff formerly of Citibank and now of the EIB, Neil Abrams of Goldman Sachs, Yasumasa Nishi of IBJ, Jane Carlin of Morgan Stanley, Simon Peerless of NatWest, Cathryn Field of Paribas, and Colin Parry of SBC Warburg. Also, special thanks are due to Ulrich Parche of Bayerische Vereinsbank, Dermot Drysdale of Chase, Jean Granoux of Credit Agricole, Malcolm Jones of HSBC, David Lewis of JP Morgan, Geoff Pennells of Salomons and Eric Rabin of Société Générale.

We have also been grateful to have had a close and productive working relationship

with many member state national central banks and governments, the European Commission and the European Monetary Institute. We would like to take the opportunity to thank these organisations for the assistance they have provided and, in particular, the EMI for kindly providing a foreword to this book. Also, thanks are due to the many other market associations with whom we have co-operated on EMU issues.

Finally, I would like to note the important contributions made by ISDA's staff and consultants to our EMU work. In particular, special thanks go to Jeffrey Golden, Edward Murray, Richard Tredgett and the other members of the Allen & Overy team and to Angela Papesch and, in particular, Matthew Elderfield of ISDA's European Office.

While our work on EMU is continuing, I believe that this guide provides an excellent reference for ISDA members and other market participants, as each of you prepare for a single currency for Europe. I hope that you agree and find this guide a useful resource for the months ahead.

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