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19th June 1998

Patrice Cahart
Delegue General
Association Francaise des Banques
18 Rue La Fayette
75440 Paris, Cedex 09

Dear M. Cahart,

European Master Agreement for Financial Transactions

We are writing to you in your capacity as Chairman of the Executive Committee of the Banking Federation of the European Union to express our serious concern over the possible development of the European Master Agreement for Financial Transactions incorporating provisions for OTC derivatives transactions.

We have three principal concerns with this initiative: that it does not, as far as we are aware, arise from derivatives market demand; that the project risks fragmentation in documentation for derivatives transactions; and that such an effort has significant cost implications for market participants.

It is, first and foremost, unclear to us that there is any demand by market participants for new standard documentation for OTC derivatives transactions. ISDA's standard master agreement and extensive supporting definitions booklets, standard confirmations, credit support agreements and other material (see annex) provide the basis for documenting the overwhelming majority of OTC derivatives transactions, addressing a comprehensive array of underlying risks and instruments. This documentation has been developed over a fifteen year period in a very open process involving contributions by market participants from throughout the world, including our extensive membership based within the European Union. This strong member input, combined with the modular, flexible, structure of the documentation, has enabled ISDA to respond quickly to market developments and needs. Indeed, you may be aware that ISDA, with major contributions from European members, has been at the forefront to ensure that our documentation addresses the changes brought about by the advent of the euro.

We would therefore be grateful to understand whether the proposed Banking Federation initiative is designed to address any particular concerns with ISDA documentation or other specific market concerns. If real concerns are identified, we are open to working with any market participant to address these, as we have done consistently in the past.

We are also deeply concerned by the prospect for fragmentation of derivatives documentation raised by the Banking Federation project. Prudent risk management and cost control

considerations have led market participants to see the clear benefits of employing as few standard market agreements as possible, a position supported by regulatory pronouncements concerned with the potential legal risk of a multiplicity of documents. Introducing a new agreement in the absence of a clear market need undermines these goals by adding to firms' legal costs, complicating the transaction management process, delaying completion of documentation, confusing customers, creating additional risk management burdens and raising potential prudential issues.

The question of costs also relates to the maintenance and development of any standard documentation by the sponsoring entity. ISDA devotes significant resources every year to ensuring that our package of documentation materials reacts to current legal and market developments. This is an extremely costly exercise involving gathering of netting opinions for over 30 jurisdictions and collateral opinions for a growing number of jurisdictions, providing amending or other language as necessary to react to market developments (such as our EMU Protocol and guidance on negative interest rates) and developing new definitions and other materials. The significant costs that would otherwise accrue to individual firms are shared by our membership as a whole, providing clear efficiencies. A similar support system would need to be developed for any additional derivatives master agreement. We ask you to consider very carefully the financial burden that would be involved and the net increase in costs to financial firms that would inevitably be incurred if you were to fund these significant expenses.

Finally, we must frankly express our dismay that the current draft of the Master Agreement in some cases reproduces ISDA language almost verbatim. Indeed, the draft we have seen acknowledges the fact that provisions are directly copied from our documentation and notes the possible goal of disguising this copying in future drafts. Given the considerable work and investment that has been put into ISDA documentation, and our clear copyright over this material, I am sure you can understand our concerns.

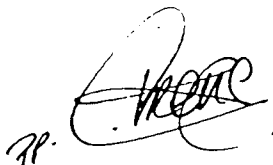
We hope that this letter provides a clear statement of our concerns regarding the proposed project and we would be grateful if you would pass this correspondence on to your colleagues on the Federation's Executive Committee and if you would be so kind to favour us with a reply. We are also copying this letter to Nikolaus Böhmcke.

Notwithstanding our concerns, we hope you will remain assured of our interest in continuing our positive working relationship with the Federation and of our intention to respond to any market needs in relation to ISDA documentation.

Yours sincerely,



Gay Evans
Chairman, ISDA



Rick Grove
Executive Director and
Chief Executive Officer
ISDA



Matthew Elderfield
Director of European Policy
ISDA