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REDENOMINATION OF TURKISH LIRA

Effective 1 January 2005, the Republic of Turkey will redenominate its currency by dropping six zeros. Turkey's currency will be renamed "New Turkish Lira" and "New Kuruş", with one hundred New Kuruş equal to one New Lira. It is intended that the term "New" will eventually be dropped. Turkey has also made announcements concerning rounding, references to old lira in legal documents, and Turkish tax. Information about the redenomination has been published by the Central Bank of the Republic of Turkey and is available in English at <http://www.tcmb.gov.tr/yeni/eng/> under the heading "New Turkish Lira".

Following consultations with Turkish counsel, Ahmed Pekin of Pekin & Pekin, and New York and English counsel at Allen & Overy LLP, the Association understands the following:

- No plans exist to eliminate any Turkish lira rates or rate panels.
- No changes will be made to the days on which Turkish banks and settlement systems are scheduled to be open.
- No plans exist to redenominate any outstanding Turkish bonds.

We understand that many ISDA members have already begun taking steps to prepare their systems to receive New Turkish Lira, and, in the case of outstanding trades, to adjust for the redenomination. Other members may wish to take similar steps in this regard and notify their counterparties to inform them of the redenomination, if they have not already done so.

It is worth noting that the redenomination of Turkish lira involves a relatively straightforward change involving a single currency. In contrast, the participation of multiple currencies in the euro raised concerns about frustration of outstanding contracts, especially with regard to the elimination of the commercial purpose of transactions designed to allocate exchange rate risk between two participating currencies. These continuity concerns, and some of the concomitant tax and accounting concerns, are not expected to arise with the redenomination of Turkish lira. Under the governing law of the ISDA Master Agreements (either New York or English law), the redenomination would be extremely unlikely to constitute the type of radical transformation or impossibility necessary to frustrate an outstanding contract. In addition, as a matter of Turkish law, all references to old Turkish currency in legal documents shall be considered to have been made to New Turkish Lira. It is expected that New York and English law would operate in a similar way by reference to this Turkish rule of law regarding Turkey's lawful currency (the *lex monetae*), assuring the continuity of outstanding Turkish lira contracts.

Members should note the following documentation issues that have come to our attention:

- The definition of "Turkish Lira" found in Section 1.7(ag) of the Annex to the 2000 ISDA Definitions (June 2000 version) and in Section 4.3(bj) of Annex A to the 1998 FX and Currency Option Definitions (September 2000 version) states that "'Turkish Lira' and 'TRL' each means the lawful currency of the Republic of Turkey". Members should note that the ISO code for New Turkish Lira will be "TRY", and Turkey will have both TRL and TRY as currency codes in 2005. The Association is already working with EMTA, Inc. and the Foreign Exchange Committee with regard to the definition of Turkish Lira found in Section 4.3(bj).

- The rounding rule for Turkish Lira found in Section 8.2 of the Annex to the 2000 ISDA Definitions (June 2000 version) states, "Round to the nearest whole Turkish Lira (with one half Turkish Lira being rounded up)". Members should note that the redenomination will mean that the appropriate rounding rule may instead be to round to the nearest New Kuruş. This would be consistent with the approach to be taken in Turkey's domestic markets. For outstanding trades, members may wish to clarify this point with their counterparties. For trades on or after 1 January 2005, at least until such time as the Annex is updated, members may wish to address this point in their confirmations.

At this time, no other documentation issues regarding New Lira have been brought to our attention. Please do not hesitate to contact Katherine Darras at kdarras@isda.org if you have any questions.