A RETROSPECTIVE OF ISDA'S ACTIVITIES IN 1999

ISDA®

INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION, INC.

A RETROSPECTIVE OF ISDA'S ACTIVITIES IN 1999

New York Office
600 Fifth Avenue
Rockefeller Center
New York, NY 10020
Tel: (1) 212 332-1200
Fax: (1) 212 332-1212

European Office
One New Change
London EC4M 9QQ
Tel: (44) 207 330-3550
Fax: (44) 207 330-3555

Website: www.isda.org
E-Mail: isda@isda.org

ISDA®

INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION, INC.

A RETROSPECTIVE OF ISDA'S ACTIVITIES IN 1999

TABLE OF CONTENTS

ISDA

International Swaps and Derivatives Association, Inc.
600 Fifth Avenue, 27th Floor
Rockefeller Center
New York, NY 10020-2302
Telephone: (212) 332-1200
Facsimile: (212) 332-1212
e-mail: isda@isda.org
website: http://www.isda.org

One New Change
London EC4M 9QQ
Telephone: 0207-330-3550
Facsimile: 0207-330-3555

March 2000

Dear ISDA Member:

Letter from the Executive Director

As we enter a new year, a new century and a new millennium, there is no stronger testimony to ISDA's effective representation of the derivatives and risk management industry than the increase in our membership registered in 1999. Ninety-two organizations joined the Association last year, bringing our membership to over 450 firms located in 36 countries on five continents.

The Association's continuing growth in size and scope is especially noteworthy in that it comes at a time, and perhaps as a result, of considerable changes we are witnessing in the global financial markets: the introduction of new regulatory frameworks, the revision of capital adequacy requirements, consolidation and increased competition among industry participants, economic uncertainty in key regions. Amidst these and other developments, ISDA's sharp and consistent focus on its core mission of encouraging the prudent and efficient development of the privately negotiated derivatives industry enabled us to continue to provide real value to our global constituency.

In the area of risk management, for example, we are spearheading industry efforts to respond effectively and appropriately to the Basel Committee's initiative to reform the current capital accord. Our three Working Groups -- Conceptual Framework, Internal Ratings and Operational Risk -- are addressing the major issues outlined in the Basel Committee's paper released last June. Member participation in the Working Groups is both substantial and widespread, with more than forty institutions from thirteen countries represented.

As part of our risk management efforts, ISDA jointly sponsored with The British Bankers' Association and Robert Morris Associates a groundbreaking survey on operational risk at fifty-five institutions around the world. The results of the survey, which confirmed that operational risk has always been managed in financial institutions, but has been viewed more recently as a separate discipline with its own management structure, tools and processes, have been presented to the Basel Committee, and will be presented to other regulatory authorities and our members around the world.

Throughout 1999, documentation continued to be a high priority on our agenda, because of its importance in reducing legal and other risks. Our leadership in this area is well-established, and was enhanced in 1999 with the publication of Credit Derivatives Definitions, the User's Guide to the 1998 FX and Currency Option Definitions (published jointly by ISDA with the Emerging Markets Traders Association and the Foreign Exchange Committee) and the User's Guide to the ISDA Credit Support Documents under English Law.

Work is also well underway on our 2000 ISDA Definitions project, a consolidation of the 1991 ISDA Definitions, the 1998 Supplement to the 1991 ISDA Definitions and the 1998 ISDA Euro Definitions, which will reflect current market practices, particularly in light of the introduction of the euro and the discontinuation of rate sources in 11 currencies. In preparation for the Year 2000 changeover, we completed a review of our documentation to anticipate, analyze and potentially resolve issues that could arise as a result of Y2K problems; we ultimately concluded that there were no major ISDA documentation concerns that needed to be addressed.

During the past year, we initiated a strategic review of our documentation to ensure that it continues to deal most effectively with marketplace issues faced by our members. This process involved establishing an overall Strategic Review Task Force and four smaller Working Groups -- on Master Agreement Structural issues; Force Majeure; Termination, Valuation and Close-out; and Collateral issues. Each of the Working Groups has developed recommendations for their specific area, which have been endorsed by the Task Force, and are now drafting or amending provisions for ISDA documents that will be reviewed by ISDA’s Documentation Committee and other interested members.

To promote legal certainty surrounding ISDA documentation, we now have a total of 34 legal opinions on the enforceability of the netting provision of the ISDA Master Agreements, including five new opinions for Japan, New Zealand, Australia, Germany, and the Netherlands reflecting changes in netting laws in those jurisdictions. We also updated 28 other opinions. Legal opinions on ISDA’s credit support documents have now been obtained in 12 jurisdictions; nine more are currently underway and an additional 10 have been commissioned. ISDA is also working with the European Bank for Reconstruction & Development in drafting netting legislation in the Czech Republic, Hungary and Poland, and positive developments on netting occurred in Mexico and Argentina through the efforts of ISDA and its members.

Following the publication in 1998 of ISDA's “Guidelines for Collateral Practitioners,” we developed and issued last year a paper on more complex collateral management issues. The ISDA 1999 Collateral Review assesses how collateralization and collateral management programs for privately negotiated derivatives transactions performed during the periods of market volatility in 1997 and 1998, and proposes new initiatives to enhance the effectiveness of collateral management. A working group of practitioners has completed and distributed for review by members suggestions for streamlining existing ISDA credit support documentation to reflect the recommendations in the 1999 Collateral Review. This is expected to result in the publication of revised credit support documentation in 2000.

Our Collateral Committee has also conducted a major survey of collateral exposure and practices that addresses all aspects of collateral management. The survey reflects responses from ISDA members and selected non-members and institutions with mature or new collateral programs.

Our European Collateral Law Reform Group made substantial strides in 1999. An overview of and specific reports on collateral law issues in 15 countries (covering each European Union jurisdiction) were completed. Following this work, as well as the creation of a collateral-related working group and the designation of collateral issues as a priority by the European Commission, our Group's focus shifted to developing and implementing strategic options that address and resolve issues we have identified.

Two new committees -- Equity Derivatives and Energy Derivatives -- were initiated during 1999. The focus of the former group includes such items as the impact of European integration on various indices and on addressing documentation issues. The formation of the latter committee reflects in part the addition of a number of energy companies to our membership and ISDA's interest in improving the business, trading and regulatory environment for energy transactions. Our efforts here include drafting an Energy Supplement to the 1993 Commodity Derivative Definitions to better cover the power and energy markets, particularly in Europe.

Public policy issues remained high on the agenda of our members and the Association in 1999, particularly as new regulatory frameworks emerged in Europe following the introduction of the euro and in the U.S. following the repeal of Glass-Steagall. In these jurisdictions, as well as others around the world, we maintained our high profile and advocacy of the industry's interests. In Asia, for example, ISDA conducted an all-day seminar on credit-related issues for Asian regulators in Kuala Lumpur in March that was initiated by the Hong Kong Monetary Authority and hosted by Bank Negara Malaysia. Some sixty regulators took part, representing the financial markets of Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand. The success of this seminar led to the scheduling in October of a day and half forum on risk management for Asian regulators in Singapore that was co-hosted by ISDA and the Monetary Authority of Singapore. Regulators from Japan, China, Hong Kong, India, Indonesia, Malaysia, Thailand and Singapore attended.

Our member outreach efforts also took on new dimensions, as we conducted more conferences and member meetings in more locations than ever before: Western and Eastern Europe, East and South East Asia and Australia, South Africa and the Americas. We held, for example, our first seminars in China and Korea last year. These sessions play a valuable role in educating the industry and others on key industry developments and Association initiatives, and the response of our members continues to be enthusiastic.

As a result of member demands and our ongoing initiatives around the world, it has become clear that our effective representation of the industry requires that we establish a presence in key regions and financial markets. This is why several years ago we added a European office, based in London, that complements the work of New York headquarters. It is also why we will open an ISDA Tokyo office in 2000. The number of committees and the level of work being undertaken by our Japanese members have increased considerably, and our Tokyo office will play an important role in facilitating and leading our activities there. We are also well along in our planning to open an office in either Hong Kong or Singapore later in 2000.

While the activities and geographic regions in which ISDA is involved are substantial and widespread, our underlying strategy remains very focused. First, we remain committed to fulfilling our mission: encouraging the prudent and efficient development of the privately negotiated derivatives business and the development and maintenance of sound risk management practices. Second, we remain a member-driven organization, one whose strategy and direction is driven by our member firms. And third, we remain convinced that our effectiveness and success are ultimately due to the continuing participation and active involvement of individuals at those firms.

The international nature of ISDA is also reflected in the composition of our Board of Directors which is drawn from twenty-two member firms from 10 countries. The Board provided strong strategic direction for the Association throughout the year and individual members played important leadership roles in committee activities and projects. The Board members in office for the third quarter of 1999 are listed below. Other Board members whose tenure ended in 1999 were Joseph Bauman of Bank of America, Mark Brickell of J.P. Morgan, Tsuyoshi Hase of the Industrial Bank of Japan, and Mark Wallace of SBC Warburg Dillon Read. Charles Smithson of CIBC World Markets and Dirk Brouwer of Trinkhaus & Burkhardt KgaA also resigned from the Board during the year. ISDA is very grateful to them for their efforts on behalf of the industry and the Association.

The year also saw a significant strengthening of the ISDA staff. The size and capabilities of ISDA's European office continued to grow. I was pleased to appoint Nick Collier to the post of Director of European Policy and Head of the European Office. I was also pleased to welcome into the European office Emmanuelle Sebton as Director of Risk Management and Richard Metcalfe as Assistant Director of European Policy. In North America, I was equally pleased to welcome Ruth Ainslie into the role of Senior Director of Policy for the Americas and Media Relations, Stacy Carey as Director of U.S. Regulatory Policy and Roseanne Stanzione as Assistant Director of Policy for the Americas. The efforts of ISDA's professional staff and outside consultants were again reflected in the achievements of 1999 and I would like to thank them for their dedication and hard work.

Matthew Elderfield, who served as head of ISDA's European office, resigned from the Association in May 1999 to accept a position as Head of Exchanges and Clearing Houses for the U.K. Financial Services Authority. ISDA is grateful to Matthew for his years of leadership in ISDA's European efforts. We wish him every success in his new role.

On behalf of our Board of Directors and our staff, I thank you for your membership in ISDA. We will continue to do all that we can in the coming year to ensure your support of, enhance your commitment to and encourage your participation in the work of the Association.

Sincerely,

Richard E. Grove, Jr.
Executive Director and Chief Executive Officer

INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION, INC.
BOARD OF DIRECTORS DURING THE THIRD QUARTER OF 1999

Mark Haedicke
Managing Director & General Counsel
Enron Capital & Trade Resources Corp.

Luciano Steve
Head of Fixed Income
Banca Commerciale Italiana

Jose Manuel Hernandez-Beneyto
Director General Adjunto
Banco Santander

Teruo Tanaka
Senior Manager, International Treasury
The Industrial Bank of Japan, Limited

MEMBER RELATIONS

Throughout 1999, ISDA continued in its efforts to update members on key industry issues in areas such as risk management, documentation, regulation, tax, accounting, emerging markets and EMU implementation. Increased use of electronic communications, the ISDA internet website and the bimonthly ISDA newsletter enabled the Association to keep its membership informed and involved in an efficient manner throughout the year. During the year, ISDA directors and staff provided presentations at seminars and member update meetings covering a range of topics in jurisdictions including Australia, Austria, Belgium, Canada, China, the Czech Republic, Denmark, Finland, France, Germany, Hungary, India, Ireland, Italy, Korea, Malaysia, Norway, Poland, Portugal, Singapore, South Africa, Sweden, Switzerland, Thailand, the United Kingdom and the United States. With the prospect of new offices in Tokyo and Southeast Asia in 2000, the level of service offered by the Association will only improve in the years to come.

The Association's member benefits, level of activity and the importance of issues that ISDA addressed in 1999 continued to fuel a significant increase in membership. Ninety-two new members joined the Association last year, including the first from India. ISDA's membership now totals over 460 financial institutions, government entities, corporations and professional service providers from 36 countries. The new members reflect in part the growth of swaps and other derivatives activity in energy, insurance and emerging markets.

During 1999, ISDA operated committees and task forces in each of the following areas: Accounting and Disclosure; Collateral Management; Commodity Derivatives; Documentation; Emerging Markets; Energy Derivatives; Equity Derivatives; European Monetary Union; Market Practice; Operations; Regulation; Risk Management and Tax, as well as local committees in South Africa, Southeast Asia and Hong Kong, Japan, and Canada.

In 1999, ISDA welcomed the following institutions as new members:

Primary Members (27)

African Merchant Bank Limited
Alpha Credit Bank
BAWAG, Bank Fur Arbeit und Wirtschaft
BSN Commercial Bank (Malaysia) Berhad
Banca Del Salento – Credito Popolare Salentino S.p.A.
Banco Inversion, S.A.
Bank Julius Baer & Co. Ltd.
Coral Energy, L.P.
DBS Bank (The Development Bank of Singapore Ltd)
Depfa-Bank Europe plc
Lazard Brothers & Co., Limited
Macquarie Bank Ltd.
Nykredit Bank A/S
Osterreichische Postsparkasse Aktiengesellschaft
Oversea-Chinese Banking Corporation Limited
PSEG Energy Resources & Trade LLC
RWE Energie AG
Reliant Energy Services, Inc.
Sanwa International PLC
St. George Bank Ltd
State Street Bank & Trust Company

Dynegy Inc.
Fleet Bank
Investicni a Postovni Banka, a.s.
Irish Life & Permanent plc
Ulster Bank Limited
Zurcher Kantonalbank

Associate (24)

American Management Systems Inc. (AMS)
Anderson Mori
Arnheim Tite & Lewis
Australian Financial Markets Association
Binder, Grosswang & Partner
Cameron McKenna
De Pardieu Brocas Maffei & Leygonie
Derivatives Net Inc.
EBS Partnership
Financial CAD Corporation
Gibson, Dunn & Crutcher LLP
Katten Muchin & Zavis
Lenz & Staehelin
Nittan Group
Patton Boggs LLP
Schulte Roth & Zabel LLP
Steins Bisschop Meijburg & Co. Advocaten
Thacher Proffitt & Wood
The Capital Markets Company
Totem Market Valuations Ltd.
Udwadia, Udeshi & Berjis
Ughi e Nunziante
Uria & Menendez
Vinson and Elkins L.L.P.

Subscriber (40)

ACN Power, Inc.
AEGON NV
AGF Assurances
Alberta Treasury
Australian Federal Financing Agency (AFFA)
Australian Office of Financial Management
Bank of Canada
Barrett Resources Corporation
Caisse Autonome De Refinancement
Canada Mortgage and Housing Corporation
Citadel Investment Group, L.L.C
ENIFIN S.p.A.
Federal National Mortgage Association
Fulcrum Bank
GMAC
Government of Canada, Department of Finance
Hess Energy Trading Company, LLC
Kingdom of Belgium
Kommuninvest I Sverige AG (publ)
Moore Capital Management, Inc.
New South Wales Treasury Corporation
National Treasury Management Agency of Ireland
National Bank of Poland
Pacific Life Insurance Company
PIMCO Advisors L.P
Province of British Columbia
Red Nacional de los Ferrocarriles Espanoles
Republic of Finland
SNS bank Nederland N.V.
Shidler Investment Corporation
South African Reserve Bank
Stichting Pensioenfonds ABP
Telkom SA Limited
Tractebel Energy Marketing , Inc.
Tractebel Energy S.A
Treasury Corporation of Victoria
Vattenfall AB
WMC Resources Ltd.
XL Insurance Ltd.
Yorkshire Building Society

REGIONAL COMMITTEES

ASIA-PACIFIC REGION

Among the highlights of ISDA's activities in the Asia-Pacific region in 1999 were two seminars on risk management that ISDA held for regional regulators. The first seminar, which was initiated by the Hong Kong Monetary Authority and hosted by Bank Negara Malaysia, was held in Kuala Lumpur in March and covered credit-related issues. The seminar was attended by approximately sixty regulators from Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand. Topics discussed included credit risk analysis and management, documentation as a credit risk mitigation technique, collateral practice, credit derivative applications and capital adequacy guidelines for credit risk. ISDA participants included representatives of ISDA members and staff from Singapore, Hong Kong, Tokyo, London and New York.

The second seminar, which was co-hosted by the Monetary Authority of Singapore (**MAS**), was held in October in Singapore. Topics covered at the seminar included market risk, credit risk, operational risk and legal risk. Regulators from various markets attended, including China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore and Thailand. The ISDA group consisted of Board members, staff and representatives of member firms from New York, London, Tokyo, Frankfurt, Amsterdam, Singapore and Hong Kong.

ISDA was active during 1999 in commenting on regulatory initiatives throughout the region. Among the proposals on which ISDA commented were the MAS's proposed guidelines for derivatives use by insurers, the Reserve Bank of India's proposed guidelines authorizing the transaction of forward rate agreements and interest rate swaps denominated in rupees and Bank Negara Malaysia's proposed guidelines relating to the use of derivatives by Malaysian insurance companies. ISDA also commented on several capital adequacy proposals relating to credit derivatives issued by regional regulators, including Australia and Hong Kong.

ISDA also actively monitored a number of other legal developments in the region during 1999. These included litigation relating to the interpretation of the ISDA Master Agreement following the liquidation of Peregrine in Hong Kong and several court cases relating to the enforceability of derivatives contracts in Indonesia. Of particular concern to ISDA and its members were the liquidation proceedings relating to Guangdong International Trust and Investment Corporation (**GITIC**) in China. The GITIC liquidation committee issued a preliminary ruling rejecting certain derivatives claims filed by creditors of GITIC on the grounds that GITIC had failed to obtain proper authorization from the Chinese State Administration of Foreign Exchange (**SAFE**) before entering into the transactions. Claimants were able to file objections to the ruling and, as of year end, a final ruling on the objections had not yet been issued. In November, ISDA submitted a letter to the People's Bank of China and the SAFE requesting that they address the legal uncertainty raised by the GITIC proceedings.

ISDA also held a number of meetings with regulators and market participants in the region during 1999. In January, an ISDA delegation visited India and gave a presentation on derivatives and risk management issues in Mumbai. In March, ISDA representatives visited members and regulators in Australia, Singapore and Malaysia. In May, an ISDA team held seminars in China and Korea on ISDA documentation and risk management issues. In October, ISDA teams visited Singapore, Malaysia, Thailand and India. ISDA also held its annual Asia-Pacific Regional Update in October in Singapore. The keynote regulatory speaker at the Singapore update was Tharman Shanmugaratnam of the Monetary Institute of Singapore.

ISDA's efforts in the region continue to be led by the members of its South East Asia Steering Committee and a variety of subcommittees that work under the Steering Committee. The committee continues to meet frequently in both Hong Kong and Singapore and draws administrative support from a representative office located in Hong Kong.

Toward the end of the year, the ISDA Board approved a proposal to establish a full ISDA office in South East Asia during the year 2000. The ISDA office, which will be located in either Singapore or Hong Kong, will provide support to ISDA's South East Asia Steering Committee and subcommittees and ISDA's regionally based members. The office will be responsible for coordinating ISDA's activities for South East Asia, China and Korea; Australia and New Zealand; and India. The office will be staffed initially by two full-time ISDA staff members. The opening is set for October 2000.

CANADIAN MEMBERS' COMMITTEE

The ISDA Canadian Members' Committee continued to focus on issues of particular concern to ISDA's Canadian members. In the middle of the year, the Ontario Securities Commission (**OSC**) issued a report by the Task Force on Debt-Like Derivatives, which included a proposed rule and policy. ISDA submitted a comment letter to the OSC indicating the view of its Canadian members that the proposed rule would hinder the market for structured debt products which are popular among Canadian investors. In its comment letter, ISDA indicated that there was no evidence of problems in the market for these instruments currently and, as such, no need for legislative intervention. ISDA urged a regulatory rather than legislative response and offered specific suggestions for improvements in the proposal.

In July, ISDA and its members were taken by surprise by amendments to securities legislation in Alberta which broadened the definition of securities in a way that appeared to encompass privately negotiated derivatives transactions. While industry participants took some comfort by obtaining exemptions from the legislation, there remained concern about the approaches that would be adopted by other provincial regulators, such as the British Columbia Securities Commission (**BCSC**). Later in the year, the BCSC finalized exemptive relief from the coverage of the provincial securities act for a broad range of OTC derivatives. The relief went considerably farther than that afforded in Alberta. The Association is continuing to work with the BCSC and other provincial securities commissions to achieve a treatment of OTC derivatives transactions that correctly reflects their unique nature and promotes legal certainty.

In June, the Canadian courts held that certain non-ISDA contracts governing transactions contemplating physical delivery were not eligible financial contracts under Canadian insolvency law. While the contracts involved in the case were not ISDA contracts, the relevant close-out provisions were based on those contained in the ISDA Master Agreement. There was an earlier ruling by the trial judge that cash-settled transactions executed under an ISDA Master Agreement are entitled to the benefits of Canadian insolvency law. The case, involving Blue Range Resources Corporation, is currently under appeal, and a hearing is set for the first quarter of 2000. ISDA has been granted leave to intervene in the appeal and is working with its Canadian members to determine the best way in which to lend its support.

EMERGING MARKETS TASK FORCE

European Emerging Markets

ISDA's European Emerging Markets Task Force was established in 1997 to focus on issues important to the development of the derivatives markets in the Czech Republic, Hungary, Poland and Russia, and to work with local participants and local authorities to promote legal certainty, most notably in the three areas of netting legislation, local documentation, and appropriate regulation. 1999 saw progress in these areas in the three countries on which ISDA has concentrated.

Following discussions with the European Bank for Reconstruction and Development (**EBRD**) Legal Transition Team in 1999, it has been agreed that the EBRD will engage ISDA (together with Allen & Overy) as consultants in drafting netting legislation in up to five Central and Eastern European countries. This is a welcome move by the EBRD, which was already supportive of ISDA's work in this area. Hopefully, the EBRD's support will encourage the governments concerned to recognize the urgency of the issue.

In a major event to round off the year, ISDA and the EBRD hosted a seminar in Prague in December, focusing on the importance of netting in the derivatives market, to which the Association invited a wide range of local market participants and officials. The seminar was followed the next day by a general update on ISDA's activities. Both events were extremely well attended by bankers, central bankers, regulators and ministry officials not just from Poland, Hungary and the Czech Republic, but also from Slovakia and other European countries.

Czech Republic

In early 1999 ISDA visited representatives of the National Bank, the Ministry of Finance, the Securities Commission and the Czech Banking Association, as well as market practitioners to discuss legal and regulatory issues relevant to the derivatives markets in the Czech Republic. Discussions focused on ISDA's advocacy paper outlining the arguments in favor of netting legislation, with active ISDA members, including the EBRD, as well as local market participants, urging Czech government officials to support the creation and adoption of close-out netting legislation.

As a result, during the course of 1999, the Financial Markets Association (**FMA**), which includes the National Bank, developed draft netting legislation. ISDA reviewed the proposed drafts through Allen & Overy, its European legal counsel, and it is hoped that the Czech parliament will amend the law on Bankruptcy as well as the Securities Act to allow for netting of derivative transactions under the ISDA Master Agreement in 2000.

The FMA has also expressed enthusiasm for the development of standardized local derivatives documentation, possibly along the lines of the Hungarian model discussed below.

Separately, the National Bank requested that ISDA assist in developing a market risk training program for its supervisory staff. In August, together with KPMG and the support of Technical Assistance Information Exchange Office of the European Commission (**TAIEX**), ISDA held a training course to provide an introduction to the standardized method in the EU Capital Adequacy Directive (**CAD**) and also to related risk management issues such as internal value at risk models, covered in the later CAD amending directive.

Hungary

In 1999, the Hungarian Forex Association finalized the development of standardized, English language, local documentation for use in the Hungarian derivatives market. Although this is not an ISDA document, ISDA's Task Force had the opportunity to review the draft documentation prior to its publication. The documentation, drafted largely by Allen & Overy, is compatible with ISDA's existing market standard documentation, taking the form of local supplements to the ISDA Master Agreement and ISDA definitions, and was published in May of 1999.

The Task Force supported the efforts of the Hungarian industry in developing local documentation that can be used also for cross-border trading. It is hoped that the Czech and Polish industry will follow suit and push for their own local, ISDA-compatible documentation.

ISDA has learned that the finance ministry and central bank are supportive of including a definition of close-out netting in a capital markets reform bill. Further advocacy is still needed, but ISDA hopes to be able to work with the local authorities and the industry to begin drafting legislation with the financial support of the EBRD.

Poland

Further to a seminar in September of 1998 on the principles of risk management, the Polish Banking and Forex Associations have pursued a local documentation project and are also interested in pressing for the adoption of netting legislation.

In December 1999, based on a request from TAIEX, ISDA organized a seminar for the Polish national bank elaborating on the implementation of derivative, swap and repurchase transactions. Additional visits to Warsaw to discuss further with market participants and regulatory bodies the need to introduce netting legislation are planned for 2000.

Latin America

Throughout 1999, ISDA continued its dialogue with both the Argentine and Mexican legislators and regulators. Recent developments in both of these jurisdictions have been encouraging.

In Argentina, a change of government has delayed the implementation of revised bankruptcy legislation, originally proposed in late 1998, addressing automatic termination of contracts and close-out netting in the event of bankruptcy. The Ministry of Justice has proposed a number of amendments to the proposed law (Ley No. 24.522 Ley de Concursos y Quiebras) which it is hoped the new Congress will consider after its legislative recess.

In Mexico, the Secretaria de Haçienda has written and delivered a bill (Ley de Concursos Mercantiles) to the Mexican Congress that addresses bankruptcy issues in general and includes provisions addressing automatic termination of contracts and close-out netting in the event of bankruptcy. There appears to be broad legislative support for the bill and it is hope that it will be passed into law soon.

JAPAN COMMITTEES

Collateral issues were at the top of ISDA's agenda in Japan in 1999. Early in the year, ISDA created a collateral sub-committee under its Tokyo Operations Committee. The first meeting of the sub-committee in February was attended by approximately fifty market participants. Discussions focused on operational issues relating to the transfer of Japanese collateral. A second meeting of the sub-committee (later in the spring) was devoted to a discussion of the legal issues surrounding the use of collateral in Japan. During the summer, the sub-committee was elevated to full committee status under the chairmanship of ISDA Board member Shigeru Asai of Sanwa Bank. The committee set as its objectives the enhancement of collateral usage to mitigate credit risk and the establishment of guidelines for managing collateral programs in Japan. In October, the Collateral Committee sponsored a series of meetings with ISDA members, the Bank of Japan (**BOJ**) and the Japanese Financial Supervisory Agency (**FSA**) to discuss collateral and derivatives. Michael Clarke of JP Morgan, co-chair of ISDA's global Collateral Committee, and Susan Hinko, ISDA's Director of Policy for the Americas, made presentations discussing the global growth in collateralization, the benefits and risks of collateral, the legal and regulatory framework for collateral and the Basel Committee's capital guidelines relating to collateral. They also discussed the type of organizational infrastructure required to ensure a professional and efficient collateral management operation.

ISDA's Tokyo Documentation Committee was also active during 1999. The FX Definitions Working Group established by the Committee began collaborating with the Tokyo FX Markets Committee on a Japanese-language User's Guide to the 1998 FX and Currency Option Definitions. The guide will not be a direct translation of the English version but will explain in plain Japanese such new concepts as Disruption Events and Non-Deliverable FX.

Activities of the ISDA Tokyo Operations Committee in 1999 included discussions on how to deal with negative interest rates. These discussions focused on such systems issues as automated calculation, mark-to-market accounting and cash flow information. The Operations Committee also discussed the introduction and status under Japanese law of fax confirmations.

During 1999, ISDA established a Tokyo Regulatory Committee under the chairmanship of Tsuyoshi Hase of IBJ-Nomura, a former ISDA Board member. The Committee set up three subcommittees. The first is the Tax and Accounting Subcommittee, which has focused on Japanese accounting developments, particularly the introduction of mark-to-market accounting for the banking book. The second is the Legislative Committee, which initially concentrated on the Japanese Financial Services Act. The third is the Capital Adequacy Subcommittee, which focused on the Basel Committee Capital Accord Reform process.

ISDA held several meetings with Japanese regulators during the year to discuss issues of mutual interest. In April, Rick Grove, ISDA CEO, and ISDA Board members Teruo Tanaka of IBJ and Shigeru Asai of Sanwa Bank met with the BOJ. The same ISDA representatives, joined by ISDA Chairman Mark Harding and several other North American and European-based ISDA

Directors and staff members, made a follow-up visit to the BOJ in October. At the same time, the group visited the FSA and the Ministry of Finance. Discussions concentrated on Japan's Big Bang, the reform of the Basel capital accord and ISDA's activities in Japan and elsewhere around the world.

ISDA held two other important meetings with Tokyo-based members in 1999. In April, ISDA representatives met with Japanese members to discuss anticipated future developments in derivatives activity and risk management. In October, ISDA held its annual Tokyo members update over a two-day period. The first day consisted of specialist briefings relating to Japanese regulatory and legislative changes, credit derivatives documentation, collateral, tax and accounting. The second day included an overview of ISDA's global documentation, risk management, collateral, accounting and market practice issues. The keynote regulatory address was delivered by Masaaki Shirakawa, advisor to the Governor of the BOJ.

Toward the end of the year, the ISDA Board approved a proposal to establish a full ISDA office in Tokyo during the year 2000. The ISDA Tokyo office will provide support to ISDA's Tokyo committees and ISDA's Tokyo-based members. The office will be staffed initially by two full-time ISDA staff members. The opening is set for April 13.

DOCUMENTATION

Strategic Documentation Review

In June 1999, ISDA began a comprehensive review of certain key aspects of its standard-form documentation. The project, called the ISDA Strategic Documentation Review, is being undertaken to ensure that ISDA's documentation continues to reflect both developing market practice and the experiences of industry practitioners during periods of market stress experienced in late 1997 and throughout 1998. Throughout 1999, four working groups focused on issues of termination, valuation and close-out; force majeure; master agreement structural issues; and collateral documentation. Each of the working groups is comprised of senior legal staff from member firms having particular expertise in ISDA documentation. In relation to the work done on collateral documentation, which followed on from the recommendations contained in the ISDA 1999 Collateral Review, see the section on Collateral Management, below. Each of the other three areas of discussions are considered in turn below. Pending publication of an amended ISDA Master Agreement, it is intended that a protocol mechanism will be established to implement on a multilateral basis the amendments resulting from the project.

Termination, Valuation and Close-out Working Group

The focus of this working group is Sections 5 and 6 of the ISDA Master Agreement. During recent periods of market stress, it became clear that, although legally robust, the Market Quotation payment measure contained in the ISDA Master Agreement may not be sufficiently flexible in a crisis situation. The mechanism requires that quotations be obtained from at least three Reference Market-makers. During periods of market stress, this can prove difficult in the cases of large or illiquid portfolios. The working group is seeking to develop a more flexible approach, allowing parties to draw on a wide range of market information, including, where reasonable, the use of data produced internally to determine replacement values for transactions accurately and on a timely basis. The working group is also reviewing the Events of Default and Termination Events set out in the Agreement to assess whether it would be appropriate to shorten cure periods and other relevant timeframes.

Force Majeure Working Group

Recent periods of market turmoil also accentuated the importance of clarifying the effect of impossibility or force majeure events on the contractual obligations of parties to an ISDA Master Agreement. Although it contains provisions addressing Illegality, the ISDA Master Agreement does not currently address impossibility or force majeure. This working group is developing a suitable provision and assessing appropriate cure and waiting periods. Similar work has been being undertaken by the Foreign Exchange Committee of the Federal Reserve, and efforts are being made to coordinate approaches.

Master Agreement Structural Issues Working Group

The goal of this working group is to develop a legally robust and practical means by which industry participants can take greater advantage of cross-product netting. The working group is considering three means of achieving this: first, the working group is considering the development of bridges to other master agreements such as the Global Master Repurchase Agreement produced by the Bond Market Association (**TBMA**) and the International Securities Market Association. Similar bridges were prepared by ISDA in 1996 to enable parties to draw transactions executed under the FRABBA and BBAIRS provisions prepared by the British Bankers' Association into their ISDA Master Agreements. Secondly, the group is considering the practicalities of a "master-master" agreement approach to cross-product netting. This is an area in which TBMA is undertaking a considerable amount of work. ISDA, through its external counsel, has commented on exposure drafts of a master netting agreement produced by TBMA and will continue to examine their efforts going forward, with a view to endorsing any suitably robust document. Thirdly, the group is looking to develop a single broad-ranging master agreement that would enable parties to document a broader range transactions, including repurchase transactions, under a single agreement. Most recently, the working group has focused on the development of bridges. However, ISDA considers that these bridges will be a temporary measure. The longer-term, permanent solution will be a broad-ranging single master agreement.

2000 ISDA Definitions

Through the substantial efforts of a small working group and a larger task force in the latter part of 1999, the Association pursued its goal of publishing a revised set of definitions for interest rate and currency swap transactions. The product of these efforts will be called the 2000 ISDA Definitions and will combine the 1991 ISDA Definitions, the 1998 Supplement to those definitions and the 1998 Euro Definitions to create a document that will hopefully stand the test of time as well as the original 1991 ISDA Definitions has. The group is focusing on issues such as cash settlement, where it is seeking to reflect the experience of market participants in using the existing cash settlement provision while anticipating the likelihood that market practice in that area will continue to evolve in the coming years. ISDA expects to complete this project in the first quarter of 2000.

1999 ISDA Credit Derivatives Definitions

In July, the Association published the 1999 ISDA Credit Derivatives Definitions. The Definitions, which are intended to facilitate the documentation of credit default transactions, have quickly gained broad market acceptance. The Definitions provide parties to credit default transactions with a shorter, more convenient means of documenting their transactions, replacing long-form confirmations based on the form ISDA published over two years ago. In addition to streamlining the documentation of individual transactions, the Definitions provide greater certainty of terms, more flexibility in tailoring specific provisions and wider coverage of underlying obligations.

One of the principal aims of the Association in developing the definitions was to promote legal certainty in the market for credit default products. It is hoped that this has been achieved through the production of objective definitions, most clearly evident in the revised definition of the Restructuring Credit Event. Work on a user's guide to the Definitions is well under way and should be completed by the end of the first quarter of 2000. The user's guide will not only include detailed explanation of the provisions in the Definitions, but will also address other issues that were considered in the course of drafting the definitions.

Work on additional credit derivative product areas in also in the Association's future documentation plans.

Year 2000 Review of ISDA Documentation

The Association worked with the Financial Markets Lawyers Group and with the Global Year 2000 External Risk Mitigation and Contingency Planning Committee to consider Y2K date change issues that may affect the financial markets. The ISDA Year 2000 Review of Standard Documentation represented one aspect of ISDA's efforts in this regard. Like a number of other financial markets industry associations, ISDA conducted an extensive review of its standard-form documentation with a view to highlighting any provisions of which industry participants should be particularly aware in light of the Y2K date change problem. It also contained a summary of ISDA's Business Day Conventions and reproduced the Global 2000 calendar of local market closures around the millennium period. Having undertaken the review process, the Association was able to conclude with certainty that there were no Y2K "time bombs" buried in its documentation.

NETTING AND COLLATERAL OPINIONS

Mitigation of risk through the use of netting and collateralization continued to be a central consideration for the Association throughout 1999. Both the Strategic Documentation Review and the efforts of the ISDA Collateral Committee focused considerable efforts on these area during the year. A further manifestation of this focus was the expansion of the Association's efforts to collect opinions on the enforceability of the ISDA credit support documents and the close-out netting provisions contained in the ISDA Master Agreement.

Netting Opinions

At the end of 1999, a netting opinion for the Bahamas was commissioned. This will bring the total number of jurisdictions from which netting opinions have been obtained to thirty-five. Revised opinions were obtained to reflect newly enacted netting legislation in Australia, Germany, Japan, the Netherlands and New Zealand. Opinion updates from thirty-one jurisdictions were solicited during the year and have been delivered to members.

Collateral Opinions

The Association's collateral opinion project, which began in 1997, is continuing to grow to meet the needs of ISDA members. Collateral opinions have now been acquired from a total of fourteen jurisdictions. In 1999, opinions from France, Germany, Hong Kong and Thailand were distributed to members and opinions from Italy, the Netherlands, Portugal and Spain are under consideration. Additionally, the Association plans to commission collateral opinions from Australia, Austria, Bermuda, Denmark, Finland, Ireland, The Netherlands Antilles, Norway, South Africa and Sweden in 2000.

ISDA is continuing to research ways in which available technology can be used to deliver netting and collateral opinions to members more promptly and in a medium that would allow members to distribute the opinions more easily to interested parties within their organizations. In 2000, ISDA began to deliver its opinions by e-mail, in addition to hard copy form.

RISK MANAGEMENT

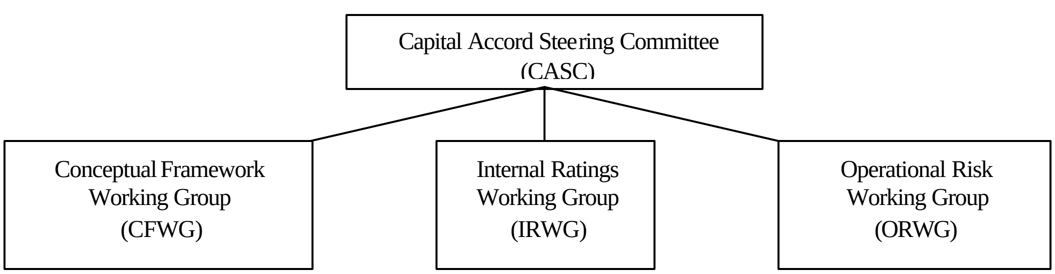
ISDA placed a strong emphasis on risk management in 1999, following the announcement by the G10 Basel Committee of Banking Supervisors of a major review of international capital adequacy standards and the issue of a parallel consultation paper by the European Commission. The Basel Committee consultation paper was a welcome development and followed an active campaign by ISDA to raise awareness of the flaws of the 1988 Capital Accord, which culminated in the publication of ISDA's paper on credit risk capital reform ("Credit Risk and Regulatory Capital", March 1998).

ISDA considers the on-going Capital Accord review to be an excellent opportunity to ensure that regulatory capital is more closely aligned with banks' economic capital and, in particular, to secure an incentive-compatible treatment of credit risk mitigation instruments. It is of the utmost importance that regulators apply charges that are directionally consistent with the risks that they are trying to capture. Of equal importance however is the need for a fundamental re-think of the rationale for applying minimum capital charges. ISDA believes that for some categories of risk, most prominently operational risk and interest rate risk in the banking book, applying minimum capital requirements is not the correct approach.

As a complement to its Basel review initiative, ISDA also carried out in-depth studies of operational risk practice and credit risk modelling. These initiatives, launched jointly with other trade associations, have greatly contributed to improving the expertise of member firms in the fields concerned, and will, it is hoped, be useful to regulators.

Reform of the Basel Accord

To address the many issues raised by the Capital Accord review, ISDA set up three working groups under the oversight of a Capital Accord Steering Committee. More than 40 firms, representing 13 countries were involved in the response process:



The CFWG considered the adequacy of the overall framework proposed by the Basel Committee, notably the soundness standard underpinning the regulatory capital requirements and the suitability of applying minimum capital charges against the various forms of risk envisaged by the Committee. The IRWG structured a matrix of credit risk capital charges, and proposed methodologies for attaining a more appropriate treatment of credit risk mitigation. The ORWG drew on banks of different types from a number of jurisdictions and focused on the appropriateness of a minimum charge for operational risk, as distinct from the process of supervisory review. As with other aspects of ISDA's response, the prime concerns were the risk-sensitivity of any regulatory treatment and the incentives it embodied. This work also entailed extensive regulatory liaison, which is set to continue in 2000. ISDA concluded that the regulators ought to promote the following principles in the new capital adequacy framework:

1. **Clarity**: The assumptions underlying the new framework should be made explicit where this is possible. For instance, the horizon set for holding capital (equivalent to the holding period retained in the trading book rules), as well as the loss percentile assumed, should be clearly defined. This is a pre-requisite for establishing a consistent, incentive-compatible framework, particularly since relying on portfolio risk models in the longer-term future is envisaged. ISDA suggests retaining 99^{th} percentile loss over a one year horizon as a basis for setting capital requirements. This would ensure that capital charges constitute a maximum insolvency standard that is non-constraining for well managed banks.

2. **Economic consistency**: Regulatory capital charges should be aligned more closely with banks' economic capital, and certainly be directionally consistent with it. They should for this purpose be sensitive to the same risk drivers that govern economic capital variations. The current Accord fails this test. ISDA has identified a range of key factors, and derived capital requirements based on these factors. For instance, credit risk charges are dependent on the tenor of the exposure, the default probability of the issuer, the loss given default on the facility, and diversification. Similarly, where analyzing contingent credit risk, ISDA has sought to link default correlation with essential parameters, such as the country of incorporation and industry of the obligors. Economic consistency is a pre-requisite for the proportionate recognition of risk mitigation (credit derivatives, operational risk insurance). Finally, ISDA strongly advocates the recognition of banks' potential future exposure measures by the regulators in the calculation of counterparty risk charges.

3. **Simplicity**: Regulators should also seek to avoid excessive complexity in developing new capital rules. These need to remain sufficiently simple, although robust, in order not to burden banks with disproportionately high implementation costs. To this end, ISDA suggests a framework for credit risk, where the same matrix of capital requirements applies whether or not the bank has been allowed to use its internal ratings for regulatory purposes. Similarly, the incorporation of credit risk mitigation in the framework is not differentiated according to whether the capital charges are internal ratings or external ratings-based.

4. **Incentives for good risk management**: Finally, it is essential that regulators consider carefully whether minimum capital requirements are appropriate protection against the forms of risk under consideration. ISDA does not believe that charging against operational risk is sensible, since this risk is mostly endogenous and should therefore normally be addressed by adopting proper systems and controls. Establishing minimum capital charges against operational risk would lead to arbitrage, and runs the risk of discouraging the development of adequate controls, in particular if the charges applied bear little relation to the underlying risk. ISDA would suggest developing an assessment methodology for banks' operational risk as part of Pillar II of the review, to ensure at least that regulatory intervention, if warranted, is proportionate to the level of risk incurred and quality of the controls in place. Similarly, it is proposed to address interest rate risk in the banking book as part of Pillar II. From a broader standpoint, ISDA welcomes the Committee's emphasis on increased and improved supervision and also supports Pillar III of the review, in as much as disclosure can effectively foster market discipline.

Throughout the response drafting process, ISDA has kept in close contact with banking regulators around the world, in the hope of being able to influence the Basel debate in its early stages. ISDA held discussions with the U.S., U.K., Japanese and French regulators, as well as the Basel Committee's Models Task Force and the EU Commission. ISDA is a member of the U.K. Financial Services Authority Advisory Group on the review of the capital adequacy framework.

ISDA has been invited by the Basel Committee's Models Task Force to participate in a data-gathering project on loss given default (**LGD**), exposure at default and credit risk capital allocations. ISDA has welcomed this proposal for further dialogue, and hopes to be able to provide the regulators with meaningful information.

ISDA will also produce a response in March 2000 to the European Commission consultative paper on capital adequacy, specifically addressing the comparative regulatory treatment of banks and securities firms.

Credit Risk Modelling

The testing exercise conducted jointly with the Institute of International Finance came to an end in late 1999. This concludes nearly two years of both quantitative and qualitative work on portfolio credit risk models, coordinated by both associations and involving 25 banks.

This important piece of work has provided participants with a unique opportunity to compare models, in both their theoretical make-up and internal implementation. A major lesson learned from the testing process has been that models are directionally consistent, in other words react similarly to similar shocks, and that loss measures obtained for a given standardized portfolio tend to be consistent within model types.

Further initiatives were launched during 1999 in the field of credit risk modelling, with a view to addressing the weaknesses that the Basel Committee believes prevent reliance on models for regulatory purposes: data scarcity and validation difficulties.

As far as data is concerned, ISDA has initiated, together with Robert Morris Associates and the British Bankers' Association, an LGD data pooling exercise for European banks. This will produce a European LGD benchmark, for use by members as a key input into their credit risk modelling, and by regulators, as a starting point where seeking to establish the reasonableness of banks' LGD assumptions.

In the field of model validation, ISDA has launched a joint project with the International Association of Financial Engineers, to create a library of academic-industry projects on credit risk modelling and validation. This will provide our membership with an opportunity to take part in some of the most advanced academic studies on this topic. Participation from regulators in this research pool is also envisaged.

Credit Derivatives

In 1999, ISDA continued to monitor and provide feedback to regulators on policy regarding the regulatory treatment of credit derivatives. The last year saw changes in regulation in Australia and Hong Kong and Singapore.

In July, ISDA responded to guidance published by the Australian Prudential Regulation Authority (**APRA**). The Association welcomed the retention of trading book eligibility criteria and the treatment of maturity mismatches in the banking book: APRA proposes partial capital relief in tune with ISDA's proposal for a "sliding scale" of charges for forward credit risk. The Association further supported the treatment of maturity mismatches in the trading book, where APRA applies one specific charge as opposed to the two applied in some other jurisdictions. ISDA however, felt that the approach to first-to-default basket products was unduly conservative for both protection sellers and buyers. The Association also expressed concern about the lack of recognition of specific risk offsets in the trading book.

In the autumn of 1999, ISDA studied proposals for new regulation produced by the Hong Kong Monetary Authority (**HKMA**). This guidance focused on credit derivatives in the banking book only. ISDA urged HKMA to clarify their approach to trading book eligibility. Transparency was also needed with regard to the treatment of maturity mismatches in the banking book, and of multiple name credit derivatives.

Operational Risk Survey

During 1999, the Association, in conjunction with the British Bankers' Association and Robert Morris Associates (**RMA**), undertook a detailed and groundbreaking study of operational risk management. The study describes current practice and thinking on the definition, measurement and management of operational risk. Fifty-five major global financial institutions responded to a detailed survey questionnaire. The resulting study represents the first publicly available analysis and report on the rapidly evolving subject of operational risk technology.

In addition to describing current organizational structures, policies, practices, and procedures, the study suggests alternative methods for managing operational risk and provides a methodology for approaching risk on an enterprise-wide basis. Exhibits and data track the evolution of operational risk management, providing a road map for institutions beginning to implement operational risk programs. The study also distinguishes between strategies utilized in a centralized management structure and those in place at the business unit level. Some of the topics addressed in the study include:

- Operational Risk and Shareholder Value;
- Defining Operational Risk;
- Trends in Organizing an Operational Risk Management Structure and Reporting;
- An Inventory of Operational Risk Management Tools Including Self Assessment, Risk Maps/Process Flows, Risk Indicators, Escalation Triggers, Loss Event Database and the Integrated Use of Tools; and
- Insurance Strategies.

Interest in the survey has been widespread among institutions and industry regulators. In October, the Association, BBA and RMA accepted an invitation to present the preliminary results of the survey to the Basle Risk Management Committee. A successful presentation was also made at the Asian Regulators Forum in Singapore in October. In addition, the survey findings were discussed at conferences in London and New York in November. The survey is available on the ISDA website (www.isda.org).

Risk Management Seminar Program

ISDA continued its monthly lunchtime seminars in New York and London on risk management. These seminars provide useful updates on industry best practice and research in the field of risk management. A mix of institutions is represented, including practitioners, consultants, rating agencies and academics. The 1999 program focused primarily on operational risk and credit risk measurement/management.

North American Program 1999

January 13
Credit Derivatives: Lessons Learned
Speaker: Robert Spielman, Bankers Trust

March 10
Incorporating Event Risk into Risk Measurement and Management
Speaker: Evan Picoult, Citibank

April 8
Collateral and Credit Risk Mitigation
Speaker: Michael Clarke, JP Morgan

May 19
Regulatory Approach to Operational Risk
Speaker: Christine Cumming, Federal Reserve Bank of New York

June 9
Insurance Companies' Approach to Managing Risk
Speaker: Thomas Wilson, Swiss Re New Markets

September 8
Recent Credit Spread Behavior: A Market Risk Perspective
Speaker: Steve Allen, The Chase Manhattan Bank

October 13
S&P Default Model Applications to CBO\CLO and Credit Derivative Based Structures
Speaker: Reza Bahar, Standard & Poor's

November 16
Basle Capital Accord Reform: Developing An ISDA Response
Speaker: Emmanuelle Sebton, ISDA

European Program 1999

January 14
Operational Risk: A Regulator's Perspective
Speaker: Jeremy Quick, Financial Services Authority

January 27
Managing FX Settlement Risk: Responding to the Basel Committee Report
Speaker: Dennis Oakley, Chase Manhattan Bank

February 18
Operational Risk: An Insurer's Perspective and Operational Risk: A Banker's Perspective
Speakers: Tony Sheeran, Sedgwick Ltd, Fred Bell and Colin Plenderleith, Royal Bank of Scotland

March 18
Operational Risk Roundtable

July 27
Pricing Operational Risk
Speakers: David LaBouchardiere, Cap Gemini and Rayond Perrier, Interbrand

July 30
A Banking Supervisor's Perspective on Credit Risk Mitigation
Speakers: Terry Allen and Diane Hilleard, Financial Services Authority (FSA)

August 12
S&P Default Model Applications in CBO/CLO and Credit Derivative Based Structures
Speaker Reza Bahar, Standard & Poor's

September 17
CreditMonitor
Speaker: Dr Peter Crosbie, KMV Corporation

October 20
Using Innovative Business Modelling To Create a Durable Risk Architecture For a Financial Institution – How an Initial Investment in Design Can Save a Fortune in Implementation of Credit and Market in a Financial Institution and Ensure Enhanceability Speaker: John Wisbey, Lombard Risk

November 17
Portfolio Manager
Speaker: Brian Dvorak, KMV Corporation

December 13
Pricing Credit Derivatives for Investment and Hedging Purposes
Speaker: Paul Varotsis, Chase Manhattan International Ltd

REGULATORY ISSUES

EUROPEAN REGULATORY ACTIVITIES

European Commission Action Plan

The impetus to create a genuine single market in financial services which had witnessed the establishment in 1998, with ISDA involvement, of the Strategy Review Group (**SRG**) continued into 1999. EU Finance Ministers in May responded to the European Commission's Communication on the work of the SRG by agreeing an important Action Plan on the steps needed to complete the single market. ISDA successfully lobbied Ministers on the need to move ahead more rapidly in the area of wholesale capital markets, where our priorities remained the need to allow interprofessional business to be regulated on a country of origin (or "home country") basis, the need for action on collateral, and the need for more flexible legislation. The Action Plan priorities reflect these points.

Over the summer, the Commission established five Forum Groups of industry experts from across the EU to advise on how to proceed and to translate these priorities into action. ISDA is represented by members on three groups: reform of the Investment Services Directive (**ISD**), collateral and market manipulation. Meanwhile, the high level financial services policy group Ministers set up at the Vienna European Council continued to meet to monitor progress. No concrete measures have, however, yet been proposed.

Another important development in 1999 was the growing influence of the Forum of European Securities Supervisors (**FESCO**). In November 1999, FESCO issued a consultation paper on a proposed common definition of a professional investor. FESCO proposes defining authorized firms as professional, with sophisticated non-authorized firms able to opt in to that category. But it proposes no differentiation at this stage in the rules applicable, other than suggesting that more general principles might be appropriate for professionals. ISDA issued a response jointly with two other wholesale market trade associations calling for a more flexible definition that would more easily allow sophisticated investors to be treated as professional. ISDA also sent a paper to the ISD Forum group calling for home country control for interprofessional business. The European Commission indicated that it would follow the FESCO paper with a Communication in 2000 recommending how it should be applied in the context of the EU Directives and is thought to be sympathetic to ISDA's position.

ISDA discussed both the FESCO paper and the implications for the ISD with the German, French and U.K. supervisors during late 1999. All are sympathetic to the need to treat professional investors with a lighter regulatory touch, but are unlikely to agree readily that "home" country control is the logical next step.

Both FESCO and the Forum Group are similarly preparing the ground for European Commission action on market manipulation. Given the concerns over the changes to the U.K. regime in this area, ISDA will prepare a paper outlining the difficulties of proceeding with a directive when national differences in how manipulation is defined and policed persist and when there is no agreement on whether enforcement should be by "home" or "host" state competent authorities.

European Parliament Intergroup on Financial Services

ISDA passed the chairmanship of the industry advisory committee of the Intergroup to ABN AMRO for 1999. ISDA continued to work with the committee to raise the profile of financial services in the Parliament, and held several productive discussions, notably on the EU Action Plan and on electronic commerce. The 1999 elections, however, naturally interrupted our activities and, furthermore, the formal position of the Intergroup was thrown into question by the decision of the new Parliament to suspend all such groups pending a review. The Advisory Committee has decided nevertheless to continue with its activities as a forum for liaison with the Parliament and will continue with a full program for 2000.

U.K. Financial Services Authority (FSA)

Given the key role of London as a centre of OTC activity in Europe, ISDA has continued to follow the establishment of the FSA with great interest. The legislation creating the FSA as an integrated regulator spent most of 1999 in the U.K. Houses of Parliament and despite the constitutional innovations of a joint committee between the two Houses and the carrying over of the bill between two sessions, progress is being made slowly. Agreement is, however, likely in late Spring 2000. Industry lobbying focused on two main issues: the need for checks and balances on the FSA's new enforcement powers, which appear at odds with the European Convention on Human Rights, and on the need for the FSA's market abuse regime to include only intentional market manipulation. ISDA worked with a number of U.K. and international trade associations on these and a host of other issues throughout the year. On enforcement, the Government appears to have given some ground. The position on market abuse remains of some concern, since the Government refused to include an "intent" provision, but amendments to include a "reasonable behaviour" defence have been added and the FSA market code, to follow the bill, is expected to expand on this and to clarify that acting in accordance with FSA guidance provides a safe harbor.

ISDA also provided comment in 1999 on various FSA consultative papers and participated in FSA discussions on a number of issues. The key topics for 2000 will be the emergence of new integrated prudential and conduct of business rulebooks, the FSA regime for interprofessional business and the FSA market abuse code.

Settlement Finality Directive

ISDA continued to monitor the implementation by member states of this Directive, which protects payment and securities settlement systems from action by liquidators which could unwind transactions and create systemic contagion effects. Article 9(2) of the Directive held particular promise by appearing to define the law applicable to dematerialized securities as the law governing the book entry system where they are held. This would be a welcome clarification in many situations, especially in the case of collateral held in the form of dematerialized securities and pledged between two participants in different jurisdictions. It appeared in subsequent discussions, however, that this Article does not require member states to apply it in all cases. ISDA has therefore joined others in pressing member states to implement it in a broad sense. Most member states, with the notable exception of Spain and the U.K., seem to have done so.

U. S. REGULATORY ACTIVITIES

There were three major areas of interest for ISDA in this regard in 1999: reform of the Commodity Exchange Act (**CEA**); financial services reform; and bankruptcy reform.

Reform of the Commodity Exchange

As the U.S. Congress began to focus on reauthorization of the Commodity Futures Trading Commission, whose authorization expires September 30, 2000, the reform of the Commodity Exchange Act quickly became a focus of ISDA's North American regulatory efforts in 1999.

ISDA participated in a number of legislative forums throughout 1999 in an effort to further the agenda for Congress to provide legal certainty for the OTC markets. Two ISDA Board members, Charles Smithson of CIBC and Ernest Patrikis of AIG, joined other businessmen, academics and regulators at a two-day roundtable held by the Senate and House Agriculture Committees at the end of February to discuss a wide range of issues in relation to both privately negotiated and exchange-traded derivatives. The Association also met with representatives of the Chicago Mercantile Exchange and the Chicago Board of Trade to discuss and consider their proposals for reform of the CEA. The Subcommittee on Risk Management and Specialty Crops of the House of Representatives Agriculture Committee held hearings on the CEA in May, at which ISDA was represented by Joe Bauman of Bank of America. Mr. Bauman stated ISDA's views that Congress should take legislative action to clarify that the CEA does not apply to OTC derivatives transactions and that Congress should also provide regulatory relief to the U.S. futures exchanges. In May, ISDA joined eight other industry groups in a letter to Rep. Tom Ewing, Chairman of the Subcommittee, urging Congressional action on reform of the CEA consistent with ISDA's objectives to provide greater legal certainty and promote market efficiency. On July 22, Rick Grove attended a working group hosted by Chairman Ewing to discuss a wide range of issues relating to the CEA. There, Mr. Grove reiterated ISDA's stance, which was supported by a number of other working group members.

On November 9, 1999, the U.S. President's Working Group on Financial Markets issued its report "Over the Counter Derivatives Markets and the Commodity Exchange Act". The report's recommendations (which were unanimously supported by the Secretary of the Department of the Treasury, the Chairman of the Board of Governors of the Federal Reserve, the Chairman of the Securities Exchange Commission and the Chairman of the Commodity Futures Trading Commission, reaffirmed the need for legal certainty for OTC markets and urged Congress, among other things, to exclude from the CEA bilateral transactions (other than transaction involving non-financial commodities with finite supply) between sophisticated counterparties.

Eight key financial groups joined ISDA in issuing a statement applauding the report and urging Congress to legislate legal certainty for the OTC derivatives markets. ISDA's only concern, which it raised with members of Congress and federal agencies, was the lack of CEA exclusion for energy and other commodity derivatives if they were considered to be transactions involving non-financial commodities with finite supply.

During 2000, ISDA will participate in Congressional hearings and will continue to work with the U.S. Congress and U.S. regulatory agencies to pass legislation implementing the recommendations of the President's Working Group.

Financial Modernization

ISDA worked throughout the year to promote the passage of legislation to modernize the U.S. financial services system and to remove archaic boundaries to competition and market development. Just before their August recess, both houses of Congress passed version of financial modernization legislation. A conference committee quickly reconciled differences between the two versions, and in October 1999, a legislative milestone was reached with the passage into law of the Gramm-Leach-Bliley Act on financial modernization. The legislation established that commercial banks are able to conduct a wide rage of swap activities without interference from non-bank regulators. ISDA has been lobbying in favor of such a provision for many years. With the exception of a narrow class of retail equity swaps, banks will be able to conduct this business without any requirement that transactions be booked in or effected through any other entities. Throughout the consideration of the legislation, ISDA worked very closely with its members, consultants and other organizations to achieve this beneficial result.

Bankruptcy Reform

The Association continued to support the passage of bankruptcy reform legislation that clearly recognizes cross-product netting and promotes greater certainty for the netting of financial contracts. Bankruptcy reform provisions that affect financial contracts have wide support but have been included in legislation that includes more controversial consumer provisions. The U.S. President's Working Group on Financial Markets "Over the Counter Derivatives Markets and the Commodity Exchange Act" supported enactment of improvements in the netting regime for derivatives transactions under the U.S. Bankruptcy Code, echoing the recommendations in the Working Group's report on highly leveraged institutions, published in April 1999.

ISDA will continue in 2000 to lobby strongly for appropriate legislative action in this regard.

OTHER REGULATORY DEVELOPMENTS

For a discussion of other regulatory initiatives in which ISDA was involved during 1999, see the section on Regional Committees, above.

COLLATERAL MANAGEMENT

ISDA remained very active in the area of collateral management throughout 1999. A number of conferences and regulator visits were undertaken as ISDA continued to promote this increasingly important aspect of the privately negotiated derivatives industry.

ISDA 1999 Collateral Review

In late 1998, ISDA published the ISDA Guidelines for Collateral Practitioners. The Guidelines were intended to be an introduction to the concepts and risks associated with collateral management. They did not consider the periods of extreme market stress that occurred in late 1997 and throughout 1998. In January 1999, ISDA organized a two-day offsite at which senior collateral practitioners discussed how experiences during those periods of turbulence could be put to use in improving credit risk management techniques.

Discussions at that meeting led to the publication in March 1999 of the ISDA 1999 Collateral Review (the **Review**). The Review documented the state of collateral management practices as of early 1999 and, drawing on the collective experience of industry participants during 1997 and 1998, offered twenty-two recommendations for improvements in the following areas:

• Credit Analysis	• Expansion of Assets Accepted as Collateral
• Organizational Considerations	• Legal and Documentation Issues
• Dispute Resolution	• Cross-Product Netting and Collateralization
• Reduction of Collateral Call Cycles	• Liquidity Management

The Review was very well received by the industry, receiving the support of the Counterparty Risk Management Policy Group and a number of industry regulators. About half of the recommendations contained in the Review addressed improvements in collateral documentation. In July 1999, ISDA organized a further two-day offsite for senior collateral practitioners to discuss how the various recommendations should be implemented. This in turn led to the publication, in October 1999, of the first draft of a detailed set of instructions to external counsel requesting the development of revised ISDA collateral documentation that will reflect the improvements in collateral management practices suggested by the Review. It is intended that a revised set of ISDA collateral documentation (provisionally entitled the 2000 ISDA Credit Support Provisions) will be finalized during 2000.

ISDA Collateral Benchmarking Survey

The Review contains a summary survey of collateral volumes and management practices as of early 1999. Industry practitioners recommended that a more extensive survey of market practice would be of considerable value. During 1999, ISDA began to undertake such survey. A questionnaire containing approximately one-hundred questions, aimed at assimilating essential data, was prepared and was distributed to ninety-two institutions. The results of the survey will:

- Facilitate assessment of the challenges faced by collateral practitioners;
- Indicate the operational standards to which institutions intending to manage collateral should aspire; and
- Provide a benchmark against which institutions that already manage collateral can assess the efficiency of their operations relative to other industry participants.

It is intended that the survey will be completed in the first quarter of 2000.

European Collateral Law Reform Project

In February 1999, ISDA formed the European Collateral Law Reform Group as a small ad hoc working group, whose brief was to map out the case for improving the legal infrastructure for secured transactions across the European Union. The group was asked to build on the paper ISDA had submitted to the European Commission's Strategy Review Group in 1998 in which ISDA had called for action in this area. As the group's work progressed, it quickly became apparent that there were issues that could and should be addressed in virtually every EU jurisdiction, and possibly at the EU level too. By the end of the year, the group delivered a report (available on the ISDA website) making a clear and compelling case for action. The report calls for European collateral arrangements to be based on the following key principles:

1. **Appropriate Rules**: rules and procedures for implementing and maintaining a collateral arrangement should be simple, clear and cost-effective.

2. **Reduction of Formalities**: cumbersome formalities such as registration, notification, filing and similar requirements should be abolished.

3. **Ability to Reuse Collateral**: a collateral taker should be free to deal with the collateral until it is required to return it.

4. **Protection from Insolvency**: a giver of pledge collateral (a pledgor) should be protected from the insolvency of the taker of that collateral (the pledgee).

5. **Law Chosen by Parties Should Govern**: the law governing the creation and priority of the collateral arrangement should be the law chosen by the parties.

6. **Choice of Law Where No Law is Chosen**: where no law has been chosen by the parties, the governing law should be the law of the place where the collateral is held, collateral held through an intermediary being deemed held where the intermediary maintains the account, register or other official record representing such collateral.

7. **Clarification of Status**: the legal nature of a party's holding of securities in a clearing system should be clarified.

8. **Protection Against Third Parties**: collateral arrangements should be protected from the rights of third parties.

9. **Protection Against Preferences**: "top-up" deliveries of collateral under mark-to-market collateral arrangements should be protected from avoidance under preference and similar insolvency rules.

At the same time as the Europe-wide summary report from which these principles are taken, this group also completed papers on each of the 15 EU jurisdictions, allowing market participants and authorities to compare and contrast in detail the situation in the constituent parts of the single European market.

Use of collateral in connection with financial transactions is growing rapidly and the potential is particularly great in Europe. Legal obstacles represent an unnecessary barrier to that growth. On the positive side, the European Commission and the European Central Bank have both demonstrated their support for a more effective collateral regime for Europe and collateral features as a high priority action point in the Action Plan agreed by EU Finance Ministers in May 1999. In September, the European Commission set up a consultative Forum group to study the issue further. ISDA continues to work with the EU institutions and the Forum group going into the year 2000. At the same time, the work of the European Collateral Law Reform Group has attracted participation from the broad ISDA membership, making this project a major part of ISDA's portfolio.

EUROPEAN ECONOMIC AND MONETARY UNION

Following extensive preparations in 1998, ISDA was not surprised by the smooth changeover to the euro. ISDA's five EMU Task Forces - Market Practice; Documentation; Operations; Accounting; Tax & Capital; and Legal & Regulatory - had been instrumental over the previous two years in identifying the critical issues and finding solutions well in advance of the actual introduction of the euro. Some 1,200 members were active in these five Task Forces. ISDA's commitment to assisting the market in ensuring a smooth changeover was documented in the various publications, memorandums and updates such as ISDA's EMU Protocol and ISDA's Operations Guidelines, contained in the EMU Guidebook.

Following the introduction of the euro, ISDA re-structured its Task Forces by forming the Euro Committee in its place. The Euro Committee met several times during the course of 1999 allowing members to reflect on their first experiences with the euro and discuss a number of post conversion issues.

Euro Swap Conventions - reconfirmed in 1999:

- Floating day count basis: Actual/360
- Fixed rate day count basis: 30/360
- Business days: TARGET operating days should form the basis for euro business days
- Fixing period: two day rate fixing convention
- Coupon frequency: annual

At the beginning of 1999, members of the Euro Committee agreed that it would be helpful to survey how market participants were applying the day count convention of Actual/Actual. As a result, ISDA published a survey which was distributed to all interested members and which aimed to provide feedback on the use of the euro conventions, as well as the treatment of legacy trades. The survey confirmed that the majority of euro trades (i.e. plain vanilla euro interest rate swaps) used '30/360' as the fixed rate day count fraction. However, the survey also revealed that for euro swaps in which the fixed payments are designed to match cashflows on a fixed rate bond issue, the day count fraction applicable to the bond (typically, Actual/Actual) was used.

The survey also indicated that more than one method of calculating Actual/Actual was being used. Discussions at the Euro Committee meeting showed that members would like ISDA to provide standard definitions allowing for the documentation of trades according to alternatives such as the ISMA and AFB methods. Accordingly, ISDA developed language intended to serve as a basis for incorporation into the 2000 ISDA Definitions, ultimately allowing members to document Actual/Actual according to the ISMA and AFB methods.

In addition, market practice concerning EURIBOR rounding and interpolation has led ISDA to review the language in the 1991 ISDA Definitions and conclusions reached in the meetings of the Euro Committee also influenced the drafting reflected in the 2000 ISDA Definitions. The Euro Committee further discussed the question of which calendar to use for the settlement of

ECU trades. The appropriateness of the approach taken by the majority of market participants, namely to follow the unofficial recommendation by the European Banking Federation (**EBF**) and use TARGET business days as the successor to ECU settlement days, was subsequently confirmed by the Bank of England in their PIQ (Practical Issues Quarterly), published on June 4.

Members raised particular concern about the lack of available information in regard to national holiday calendars and TARGET operating days. ISDA has called on the European Commission and European Banking Federation to provide national holiday calendars as soon as possible and ISDA has also urged the European Central Bank to clarify when TARGET is expected to close in the years beyond 2000.

A further matter that arose towards the end of 1999, following the announcement of additional TARGET settlement days, was the need for clarification on how to obtain a settlement rate for legacy trades (which are settled according to pre-1999 business day conventions) on national banking days which are not TARGET business days. ISDA continues to pursue this matter with the EBF, which sponsors EURIBOR. ISDA continues to discuss these topics with members of the Euro Committee. Further efforts will include consideration of whether there is a need to facilitate the redenomination of outstanding legacy transactions and the adoption of the euro by other countries going forward.

ACCOUNTING AND DISCLOSURE

Europe

ISDA continued to monitor developments in the field of accounting and disclosure in Europe throughout the year. The effects of standard setters' interest in mark-to-market valuation for financial instruments is beginning to be felt. A disclosure recommendation from the European Commission was issued for comment and the possibility of a "European Accounting Standards Board" discussed. Many European members of ISDA are already affected by U.S. FAS 133, by virtue of having a U.S. listing.

In this context, the position and influence of the London-based International Accounting Standards Committee is being closely monitored. As in North America, many firms continue to have serious concerns about the seemingly unstoppable move to 'fair-value accounting'. Even where the principle is accepted, implementation remains an issue.

North America

The Federal Accounting Standards Board (**FASB**) voted on May 19 to delay the date for implementation of FAS 133 (Accounting for Derivative Instruments and Hedging Activities) for one year to fiscal years beginning after June 15, 2000, citing Y2K reprogramming concerns as the reason. ISDA submitted a letter in early May supporting calls for the delay.

Also during the year, ISDA commented on the FASB's Exposure Draft regarding Transfer of Financial Assets, an amendment to FAS 125 that deals with recognition and measurement of the right to sell or repledge collateral held. In its comments, ISDA agreed with the Board's theoretical basis for recording the fair value of the contractual right to sell or repledge collateral by both the pledgor and receiver of collateral. ISDA also emphasized however that recording assets and liabilities as separate contractual rights is inappropriate when viewed in the context of a cost/benefit analysis, since the value of the collateral rights are immaterial compared to the value of the related balance sheet amounts. ISDA supported an approach that does not require the reporting of the contractual rights and requires the recording of collateral assets only when a debtor defaults and is no longer entitled to redeem the collateral. In early 2000, FASB issued its final guidance which did not require the reporting of contractual rights.

EQUITY DERIVATIVES

A new undertaking for ISDA in 1999 was the formation of an important new committee on equity derivatives. The Committee unites front-office and legal specialists and met for the first time in September. It has rapidly built up a portfolio of issues and addressed the more immediate ones, including the effect of changes to the method of calculating certain FTSE indices, at its first meeting in London in September 1999.

More generally, the aim is to pursue further standardisation in relation to equity derivatives business practices, building on the platform established by the 1996 Equity Derivative Definitions. This includes promoting dialogue on how to provide for various forms of corporate action, where greater consensus would be of benefit to the market. The Committee is also monitoring accounting issues and reviewing training needs.

ENERGY DERIVATIVES

ISDA's Energy Derivatives Committee identified standardization of documentation as its main challenge, given deregulation in the energy markets in Europe and the U.S. Existing transaction agreements do not address the sophisticated issues that can arise and, as trading increases globally, there will be a need for common documentation approaches. ISDA is revising the 1993 Commodities Definitions to include additional North American and European price sources, substantially increasing the scope of the document. ISDA membership in the energy community has continued to increase, and the committee is poised to play a larger role in 2000.

OPERATIONS

During 1999, the work of ISDA's Operations Committee focused on technology developments in derivatives processing, with particular emphasis electronic messaging and automation of back office processes. ISDA reviewed vendor and industry-proposed solutions aimed at automating operations processes and observed and encouraged individual member efforts to achieve straight-through processing. ISDA prepared a memorandum to the membership reaffirming the acceptability of electronic confirmations in the event that certain members needed assurance that faxes, telexes, SWIFT and other automated messages can be used to confirm derivatives transactions. As FpML becomes an industry driven initiative, ISDA is staying abreast of its development to ensure its viability within the ISDA Operations and Documentation framework.

In the last quarter of 1999, the Association developed an Operations Benchmarking Survey to address the membership needs for clear benchmarks for operations processing. The Operations

Committee worked to develop the survey with an eye to understanding the challenges ahead of the business considering the mounting pressures of increased volumes, the pressure to decrease costs as well as to satisfy regulatory interests in operational risk.

MARKET PRACTICE

ISDA Par Rate Screens

During 1999, there was an increasing acceptance of the screen service produced by the Association in cooperation with Reuters and Garban Intercapital Brokers Ltd. to facilitate the determination of the values of cash settled swap options. The relevant screens can be found at Reuters pages ISDAFIX1 through ISDAFIX4 (with backup information being displayed on Reuters pages ISDA10 through ISDA47). Following the introduction of the euro, new screens were established early in the year that benchmark against both EURIBOR and euro LIBOR. Currently, mid-market swap rates are published in relation to euro, U.S. Dollars, Japanese Yen, Sterling and Swiss Francs at various maturities.

Enhancements to the service in September strengthened the rates and extended their application. Yen and euro rate tenors were extended to twenty and thirty years respectively. Quotes for EURIBOR and euro LIBOR are now displayed at both 11:00 a.m. Frankfurt time and 11:00 a.m. London time. Successful changes were made to panel compositions which have led to more consistent and regular quoting.

The ISDA Market Practice Committee focuses on issues of concern to the trading community. Committee members considered the introduction of a presumption of automatic exercise of options to alleviate the potentially expensive problem of missed exercise of in-the-money options. Discussions in this regard will be reflected in the 2000 ISDA Definitions. The Committee also considered the establishment of parameters for the use of mutual puts; however, no consensus has been reached on this. Other topics of interest to the Committee include the consolidation of portfolios between large counterparties, the potential impact of e-commerce on trading and electronic clearing and settlement systems.

MARKET SURVEY

During 1999, ISDA continued its Confidential market survey activities, publishing the 1998 Year End Market Survey details for interest rate swaps, currency swaps and interest rate option products in 17 currencies. The figures for 1998 showed that notional principal outstandings continued strong growth during market disruptions in that year.

The semiannual market report issued by the Association in June 1999 showed that worldwide growth in the use of privately negotiated derivatives, as measured in the notional principal of outstanding transactions, slowed to 3.4% in the first half of 1999. Notional amounts totaled $52.711 trillion at June 30, 1999 compared to $50.997 trillion six months earlier and $36.974

trillion one year earlier. The slowdown was believed to reflect the return of credit and currency stability from the exceptional volatilities associated with the Asian crisis, the Russian bond default and other events in the previous two years. Year-end figures for 1999 will be made available in the first quarter of 2000. Survey results are made available on the ISDA website.

As of 1998, ISDA streamlined its reporting, only collecting aggregate Flash Survey statistics for interest rate and currency swaps and interest rate option products. The Bank for International Settlements now produces a comprehensive survey of all segments of the OTC derivatives markets.

TAX

Europe

During 1999, the Tax Committee monitored two issues of significance to the financial markets. The first of these was the now withdrawn Italian withholding tax on Italian-sourced derivatives. ISDA sought to clarify how firms should deal with the effects of the brief period when the tax was in force. The second issue addressed by the Committee was the potential introduction of a withholding tax on interest income across the European Union. This remains an issue as we approach 2000 and ISDA will continue to monitor any impact, direct or indirect, that this may have on derivatives markets.

North America

The Tax Committee wrote a letter in September to the Treasury and to the United States Internal Revenue Service urging the appropriateness of using values determined for financial reporting purposes for valuing derivatives for tax purposes. In addition, representatives of the Association and its membership met with Treasury and IRS officials in November to explain ISDA's position. The outcome of the meeting was further interest from the Service to learn more regarding various mark to market accounting methods. At the close of 1999, the issue remains open and ISDA will continue to educate the IRS and Treasury on its position as the need for clarity regarding appropriate valuing methods for derivatives transactions.

CONFERENCES

The following is a month-by-month record of the conferences organized by ISDA during 1999.

Conference	Location	Date
Understanding the 1992 ISDA Master Agreements	New York	January 11
Understanding the 1992 ISDA Master Agreements	London	January 28
Understanding Collateral Arrangements & the ISDA Credit Support Documents	New York	February 4
Understanding Collateral Arrangements & the ISDA Credit Support Documents	London	February 17
Energy Derivatives Conference	Houston	February 24
Annual General Meeting	Vancouver	March 24-26
Documenting and Confirming Credit Derivatives Transactions	New York	April 21
Documenting and Confirming Equity Derivatives Transactions	New York	April 22
Documenting and Confirming FX and Currency Option Transactions	New York	April 23
Operations Training Course	London	May 5-6
Operations Training Course	New York	May 24-25
Documenting and Confirming Credit Derivatives Transactions	London	June 1
Documenting and Confirming Equity Derivatives Transactions	London	June 2
Documenting and Confirming FX and Currency Option Transactions	London	June 3
Understanding the 1992 ISDA Master Agreements	London	June 9

Conference	**Location**	**Date**
Understanding the 1992 ISDA Master Agreements	New York	June 15
Confirmations Training Course	New York	June 21-22
ISDA Member Update	London	September 16
ISDA Member Update	New York	September 23
Confirmations Training Course	London	October 18-19
Confirmations Training Course	New York	October 21-22
ISDA Member Update	Tokyo	October 21
Asia Pacific Regional Conference	Singapore	October 25-26
Operations Training Course	New York	November 4-5
Understanding Collateral Arrangements & the ISDA Credit Support Documents	London	November 10
Understanding Collateral Arrangements & the ISDA Credit Support Documents	New York	November 17