MARKET PRACTICE STATEMENT FOR SHARE VARIANCE SWAP TRANSACTIONS INVOLVING JAPANESE SHARES REGARDING WHEN EXCHANGE-IMPOSED DAILY PRICE LIMITATIONS WOULD CONSTITUTE A MARKET DISRUPTION EVENT DUE TO A TRADING DISRUPTION

10 March, 2009 – The International Swaps & Derivatives Association, Inc. (“ISDA”) today announced a market practice statement (“this Statement”) in regard to the circumstances under which exchange-imposed daily price limitations would constitute a Market Disruption Event due to a Trading Disruption for share variance swaps involving Japanese shares (“Japanese Share Variance Swaps”).

In the interest of promoting the orderly valuation and settlement of Japanese Share Variance Swaps, ISDA strongly urges all participants to apply the guidance set out in this Statement to all Japanese Share Variance Swaps (regardless of when entered into) but only in respect of events occurring on or after 10 March, 2009.

During a call held on 27 February (or subsequently advised to ISDA), the following firms endorsed this Statement: Barclays Bank PLC, BNP Paribas, Credit Suisse, Daiwa, Deutsche Bank AG, Goldman Sachs & Co., JP Morgan, KBC Financial Products, Morgan Stanley, Nomura, RBS, Societe Generale and UBS.

Statement

With regard to outstanding Japanese Share Variance Swaps (regardless of when entered into) but only in respect of events occurring on or after 10 March, 2009 and only insofar as exchange-imposed daily price limitations are concerned (but not otherwise), in respect of a Share, it will be a Market Disruption Event for Trading Disruption if there was a Continuous Bid-up or a Continuous Offer-down for that Share on the Relevant Exchange during the Relevant Observation Period. Any Trading Disruption due to exchange-imposed daily price limitations which does not meet these criteria will never be a Market Disruption Event.

For the purposes hereof:

“Continuous Bid-up” means, in relation to a Share, that (i) there was at least one bid (or buy order) for that Share at the Limit-up Price on the Relevant Exchange, and (ii) no orders were executed at all, in each case, throughout the Relevant Observation Period.

“Continuous Offer-down” means, in relation to a Share, that (i) there was at least one offer (or sell order) for that Share at the Limit-down Price on the Relevant Exchange, and (ii) no orders were executed at all, in each case, throughout the Relevant Observation Period.

“Limit-down Price” means, in relation to a Share and a Scheduled Trading Day, the lowest price at which that Share can be traded on that Scheduled Trading Day, pursuant to the trading rules of the Relevant Exchange.
“Limit-up Price” means, in relation to a Share and a Scheduled Trading Day, the highest price at which that Share can be traded on that Scheduled Trading Day, pursuant to the trading rules of the Relevant Exchange.

“Relevant Exchange” means, in relation to a Transaction, the exchange specified as the “Exchange” in the Confirmation of that Transaction.

“Relevant Observation Period” means, in relation to the Relevant Exchange, the 10-minute period that starts 15 minutes before, and ends 5 minutes before, the actual closing time for the regular trading session on that Relevant Exchange. For example, if the Relevant Exchange is Tokyo Stock Exchange, Inc., the Relevant Observation Period starts at (and including) 14:45:00 and ends at (and including) 14:55:00.

Other capitalized terms used in this Statement but not defined has the meaning given to that term in the 2002 ISDA Equity Derivatives Definitions.

BOA/Merrill Lynch takes the position that it is still a MDE even if there were orders executed during the relevant period, so long as there were one or more bids at the Limit-up Price throughout the relevant period.

BOA/Merrill Lynch takes the position that it is still a MDE even if there were orders executed during the relevant period, so long as there were one or more offers at the Limit-down Price throughout the relevant period.