

**MARKET PRACTICE STATEMENT FOR VARIANCE SWAP**

**TRANSACTIONS INVOLVING U.S. SHARES REGARDING WHEN**

**PRICE LIMITATIONS WOULD CONSTITUTE A**

**MARKET DISRUPTION EVENT DUE TO A TRADING DISRUPTION**

Re: U.S. --Short Sale Related Circuit Breaker--Regulation SHO Rule 201

April 5, 2011

The International Swaps & Derivatives Association, Inc. (“ISDA”) today announced a market practice statement in regard to short sale price limitations triggered under Regulation SHO Rule 201 for U.S. share and index variance swaps (“U.S. Variance Swaps”).

In the interest of promoting the orderly valuation and settlement of U.S.

Variance Swaps, ISDA strongly urges all participants to apply the guidance set out in

this Statement to all U.S. Variance Swaps in respect of events occurring on or after February 28, 2011.

**Statement:**

**With regard to any U.S. Share Variance Swap regardless of whether entered into on, prior to, or after the date hereof but only in respect of events occurring on or after February 28, 2011 and only insofar as short sale price limitations triggered under Regulation SHO Rule 201 are concerned, it will not be considered a Market Disruption Event in respect of the Observation Start Date or any Observation Day which is on or after February 28, 2011, due to the occurrence of a short sale price restriction on the Share for such U.S. Share Variance Swap on the applicable Exchange.**

**With regard to any U.S. Index Variance Swap, regardless of whether entered into on, prior to, or after, the date hereof but only in respect of events occurring on or after February 28, 2011 and only insofar as short sale price limitations triggered under Regulation SHO Rule 201 are concerned it will not be considered a Market Disruption Event in respect of the Observation Start Date or any Observation Day which is on or after February 28, 2011, due to the occurrence of a short sale price restriction for any shares which comprise the Index for such Swap on any one or more of the Exchanges for such Swap.**

**The Market Practice Statement provides certain market consensus reached among market participants polled by ISDA and is not meant to be binding in any way. As with all market information and guidance that ISDA disseminates, parties are free to choose alternate means of addressing the event. Each member remains responsible for considering its own documentation and the specific terms of its own trades and forming its own conclusion on the proper interpretation of events.**

**Background:** On February 26, 2010, the SEC  adopted Rule 201 of Regulation SHO. Rule 201 restricts the price at which short sales may be effected when a stock has experienced significant downward price pressure. Rule 201 became effective on May 10, 2010. (Securities Exchange Act Release No. 61595 (Feb. 26, 2010), 75 FR 11232 (Mar. 10, 2010) and compliance with the new rule is required as of February 28, 2011.

Among other things, Rule 201 requires that a trading center establish, maintain, and enforce written policies and procedures reasonably designed to prevent the execution or display of a short sale order of a covered security at a price that is less than or equal to the current National Best Bid if the price of that covered security decreases by 10% or more from the covered security’s closing price as of the end of regular trading hours on the prior day. Once the circuit breaker in Rule 201 has been triggered, you must execute short positions above the current National Best Bid price. This restriction will remain in place for the remainder of the day triggered and the following day, unless an exception applies.

For more information please see:

 SEC Rule Release:  [*http://www.sec.gov/rules/final/2010/34-61595.pdf*](http://www.sec.gov/rules/final/2010/34-61595.pdf)

 SEC FAQs:   <http://www.sec.gov/divisions/marketreg/rule201faq.htm>