



Clarification Pertaining to the Documentation of Recovery Lock Credit Derivative Transactions - May 27, 2011

ISDA has been asked to clarify the standard market approach to documentation of recovery lock credit derivative transactions following ISDA's March 2, 2011 publication of Additional Provisions for Recovery Lock Credit Derivative Transactions (the "Recovery Lock Provisions") and update of the Credit Derivatives Physical Settlement Matrix (the "Matrix") and Confirmation for use with the Matrix ("Matrix Confirmation"). Version 17 of the Matrix, published March 16, 2011, is the first version which refers to the Recovery Lock Provisions.

To this end, ISDA's Credit Derivatives Documentation Update Working Group and Credit Derivatives Operations Working Group have agreed to publish this Notice to confirm their common understanding on the approach to documenting a recovery lock credit derivative transaction subsequent to March 2, 2011. As used below, "MR/MMR Transaction" means a transaction where Restructuring is specified as a Credit Event and either Restructuring Maturity Limitation and Fully Transferable Obligation or Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation is specified as applicable.

| Transaction Description | Documentation |
|--|--|
| Recovery lock transaction that is not an MR/MMR Transaction: | <i>Unless agreed otherwise by the parties at the time of trading:</i> <ul style="list-style-type: none">• Recovery Lock Provisions to be used with a Matrix Confirmation• "Fixed Settlement" to be applicable |
| Recovery lock transaction that is an MR/MMR Transaction ¹ : | <i>Unless agreed otherwise by the parties at the time of trading:</i> <ul style="list-style-type: none">• Transaction to be documented as two separate transactions (sometimes referred to as a "recovery swap"): a plain vanilla CDS and a fixed recovery CDS transaction• Plain vanilla CDS to be documented as per the parties' usual standards• Fixed recovery CDS may be documented using a Matrix Confirmation with the Additional Provisions for Fixed Recovery CDS Transactions (September 24, 2010) specified as applicable |
| Recovery lock transaction where the parties agree at the time of trading that Fixed Settlement should not apply: | <i>Unless agreed otherwise by the parties at the time of trading:</i> <ul style="list-style-type: none">• Recovery Lock Provisions to be used with a Matrix Confirmation² (including for an MR/MMR Transaction)• "Fixed Settlement" to be specified as Not Applicable |

¹ N.B. The Recovery Lock Provisions state that they are not intended for use with an MR/MMR Transaction unless the parties specify that "Fixed Settlement" is Not Applicable. MarkitSERV's DSMatch platform will restrict the election of the Recovery Lock Provisions for MR/MMR Transactions, and the Matrix specifies that the Recovery Lock Provisions are not applicable for relevant Transaction Types. MarkitSERV will also restrict the election of the Recovery Lock Provisions on all "Standard" Transaction Types.

² It is not recommended to use the Confirmation for Recovery Lock Credit Derivative Transaction published May 1, 2006, even with the inclusion of specific provisions to apply the provisions of the 2009 ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring CDS Protocol.

Capitalised terms have the meaning given to them in the relevant ISDA definitional booklet. The precise documentation of each Transaction remains the responsibility of the parties concerned. ISDA assumes no responsibility for any use to which this document may be put. Each party following the recommendations contained in this document should satisfy itself that those recommendations are appropriate to reflect the commercial intentions of the parties.

| Transaction Description | Documentation |
|---|---|
| Novation of a recovery lock transaction confirmed using the Confirmation for Recovery Lock Credit Derivative Transaction published May 1, 2006: | <p><i>Unless agreed otherwise by the parties at the time of trading:</i></p> <ul style="list-style-type: none"> • Novation Confirmation (January 31, 2011 version) to be used with the confirmation of the recovery lock transaction attached as the “Old Confirmation” |
| Novation of a “recovery swap” where one or both legs of the original transaction are confirmed on paper: | <p><i>Unless agreed otherwise by the parties at the time of trading:</i></p> <ul style="list-style-type: none"> • If both legs were confirmed on paper: Novation Confirmation (January 31, 2011 version) to be used with each paper confirmation relating to the “recovery swap” transaction attached to the relevant Novation Confirmation as an “Old Confirmation” • If one leg was confirmed on paper and the other confirmed electronically: Novation Confirmation (January 31, 2011 version) to be used with the paper confirmation attached as the “Old Confirmation” and the novation of the leg that was confirmed electronically may be documented as per the parties’ usual standards |

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