

Commentary to the 2005 Matrix Supplement to the 2003 ISDA Credit Derivatives Definitions

The Credit Derivatives Physical Settlement Matrix has been developed to set out certain elections that apply to certain Reference Entities under Credit Derivative Transactions for which Physical Settlement applies as the relevant Settlement Method¹. The Credit Derivatives Working Group, a sub-committee of the ISDA Operations Committee, proposes to incorporate the terms of the Credit Derivatives Physical Settlement Matrix (published on the www.isda.org website) into the 2003 ISDA Credit Derivatives Definitions as a fallback standard, as a means to facilitate the straight through processing of such Credit Derivative Transactions and considerably shorten Confirmation terms that must be matched or agreed to, whether electronically or manually.

Parties may express the elections set out in the Credit Derivatives Physical Settlement Matrix to apply to a Credit Derivative Transaction by referencing the 2005 Matrix Supplement in their Confirmation and including and identifying a Transaction Type in the Confirmation for that Credit Derivative Transaction. Where the elections set out in the Credit Derivatives Physical Settlement Matrix are expressed to apply to such a Credit Derivative Transaction, then the terms set out in the Credit Derivatives Physical Settlement Matrix with respect to such Transaction Type will apply to that Credit Derivative Transaction as though they had been set out in the relevant Confirmation. By including a Transaction Type in the Confirmation for the Credit Derivative Transaction, and unless otherwise agreed, the parties will automatically incorporate the version of the Credit Derivatives Physical Settlement Matrix most recently published at the date on which they enter into the relevant Credit Derivative Transaction, as amended and

amended and/or supplemented from time to time. Parties should note that an amended or supplemented Credit Derivatives Physical Settlement Matrix will not have retroactive application to Credit Derivative Transactions documented prior to its publication, unless the parties agree otherwise.

If the parties want to incorporate a different version of the Credit Derivatives Physical Settlement Matrix, or exclude amendments and/or supplements made to the most recently published version, the parties should specify a particular version of the Credit Derivatives Physical Settlement Matrix by reference to a date in the Confirmation for the Credit Derivatives Transaction (e.g., November 2004 version). A historical record of changes to the Credit Derivatives Physical Settlement Matrix will be identified and tracked by ISDA.

All terms used in this Commentary that are not defined herein will have the meanings given to them in the 2003 ISDA Credit Derivatives Definitions.

¹ The Credit Derivatives Physical Settlement Matrix is meant to be used in conjunction with the 2003 ISDA Credit Derivatives Definitions as supplemented by the May 2003 Supplement to the 2003 ISDA Credit Derivatives Definitions.