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M E M O R A N D U M

TO: ISDA Japan Equity Derivatives Committee
FROM: Kumi Namba (Tokyo)
DATE: October 10, 2008
RE: **Minutes from October 10, 2008 1:15 p.m. (Tokyo time) meeting of ISDA members (conference call)**

Potential Trading Disruption Event – Japanese Index Variance Swap on Nikkei 225

1) Background and Issue

As at the time of the meeting on October 10, 2008, there was a certain possibility that a Trading Disruption event may occur with respect to Japanese Index Variance Swap Transactions on Nikkei 225 pursuant to the Section 6.3(b)(i) under 2002 ISDA Equity Derivatives Definitions. Then there was a further question whether this may or may not constitute a Market Disruption Event.

The dealers discussed the question and exchanged their views as to their interpretation of the definition of the Market Disruption Event and tried to reach consensus, on the understanding that such consensus will not be a legally binding rule imposed upon the members.

2) Assumptions

1. “Limit low” limitation was imposed on trading by the Tokyo Stock Exchange relating to securities that comprise 20% or more of the level of Nikkei 225 (i.e. a Trading Disruption occurred) and continuing for all of the 20 minute period that ends at the relevant Valuation Time.
2. Futures on Osaka Securities Exchange (OSE) were being traded normally.

3) Summary of Discussion

- Participating dealers agreed that they would consider the above situation 2) 1. as material and hence the existence of such event would constitute a Market Disruption Event. (The dealers also agreed that if the Trading Disruption continued for “most of” the 20 minute period, then they should probably treat such situation as “material” but no consensus was reached as to what can be treated as “most of” the relevant period.)
- Participating dealers did not reach any consensus as to the relevance of the futures being traded on OSE - for the purposes of determining if the occurrence of a Trading Disruption is material or not - therefore. 2) 2. was not taken into account as a condition in reaching the consensus above.