CHANGE IN TRADING DAYS OF THE TAIWAN STOCK EXCHANGE AND CHANGE IN VALUATION DATE OF THE EXCHANGE-TRADED INDEX OPTIONS CONTRACT - SUMMARY OF CALL HELD ON 12 JANUARY 2009 AT 5 P.M. HONG KONG TIME.

Institutions represented:

BNP Paribas, Calyon, Citigroup, Credit Suisse, Deutsche Bank, Dresdner Bank, Goldman Sachs, JP Morgan, BOA/Merrill Lynch, RBS/ABN, Societe Generale and UBS.

1. Chong Liew from Linklaters highlighted that the working group discussions in connection with the drafting of the 2007 AEJ Variance Swap MCA had contemplated the possibility of a Saturday becoming a trading day, not only in regard to India but also Taiwan. The conclusion at that time was that such Saturdays should not be treated as Scheduled Trading Days. The formula in the 2007 AEJ Variance Swap MCA assumes a fixed N and does not contemplate a situation where an original Scheduled Trading Day becomes a non-Scheduled Trading Day and vice versa. One interpretation is that Scheduled Trading Day in the 2002 ISDA Equity Derivatives Definitions refers to Scheduled Trading Day determined as of the Trade Date of the Transaction. Thus, e.g., 2 January will still be a Scheduled Trading Day but will be a Disrupted Day (so that P_t for that day will be the same as P_{t-1} and Ln P_t / P_{t-1} for that day will be zero); and 10 January will not be a Scheduled Trading Day and will be disregarded.

2. Participants expressed the view that in order to hedge the variance swap with a replicating options portfolio, the divider "N" in the equation must stay the same as on the Trade Date.

3. Apart from BNP Paribas, participants were also of the view that if the TWSE were to open on a Saturday, they would need to trade on Saturday to re-hedge their position. BNP Paribas said that they had taken the view that any trading on a Saturday should be ignored based on the working group discussions in connection with the drafting of the 2007 AEJ Variance Swap MCA.

4. Participants then voted on the following questions:

   (a) Assuming that the tenor of the variance swap is such that a "lost" day is covered by a "make-up" day (e.g., the variance swap ends on 12 January so that although it loses 2 January, it picks up the make-up day of 10 January), should the divider "N" in the equation stay the same?

   All participants voted that "N" should stay the same.

   (b) Assuming that the tenor of the variance swap is such that a "lost" day is not covered by a "make-up" day (e.g., the variance swap ends on 7 January so that it loses 2 January, and does not pick up the make-up day of 10 January), should the divider "N" in the equation stay the same?

   RBS/ABN said they would follow the consensus view. All other participants voted that "N" should stay the same.

   (c) Should the make-up trading days (even though they fall on a Saturday) be included as Observation Days?

   Goldman Sachs said they would follow the consensus view. The participants (other than BNP Paribas) voted yes. However, BNP Paribas agreed to follow the consensus view.

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(d) Would it change their answer to (c) if the tenor of the variance swap is such that a "lost" day is not covered by a "make-up" day (e.g., the variance swap ends on 7 January so that it loses 2 January, and does not pick up the make-up day of 10 January)?

All participants said that this would not change their answer to (c).

5. Participants agreed that it does not matter how much prior notice was given by the exchange of the change in trading days.

6. Participants agreed that if a transaction was to be entered into today, then "N" should reflect the change in trading days as already announced by the exchange, i.e., 2 and 30 January and 29 May would not be Scheduled Trading Days, but 10 and 17 January and 6 June would be Scheduled Trading Days.

7. Participants also raised the impact of the change in the valuation of the exchange-traded index options contract. Previously, these contracts were valued using the Thursday opening level. This has since been changed to valuation using the Wednesday closing level. Participants asked if:

   (a) the Observation End Date/Scheduled Valuation Date of existing variance swaps should be shortened by one day as a result, and

   (b) if yes, whether "N" should also be reduced by one.

8. Chong Liew pointed out that, "in the event that the terms of the Exchange-traded Contract are changed or modified by the Exchange", Section 6.8(d) of the 2002 ISDA Equity Derivatives Definitions permitted the Calculation Agent "if necessary, [to] adjust … any other variable relevant to the settlement terms of the Transaction to preserve for each party the economic equivalent of any payment or payments (assuming satisfaction of each applicable condition precedent) by the parties in respect of the Transaction that would have been required after the date of such change".

9. Participants asked firms to state what each had done in respect of the questions posed in paragraph 7, i.e.:

   (a) Had they shortened the Observation End Date/Scheduled Valuation Date of existing variance swaps by one day as a result of the change in valuation timing of the exchange-traded index options contract?

   All participants said that they had shortened by one day.

   (b) Had they reduced "N" by one?

   Calyon and Goldman Sachs said that they had not reduced "N". All other participants said that they had reduced "N" by one day. However, both Calyon and Goldman Sachs confirmed (in the case of Calyon, during the call, and in the case of Goldman Sachs, subsequent to the call) that they would follow the consensus view.

10. Participants agreed that ISDA should circulate a summary of the discussions to market participants and that ISDA should facilitate amendments to the contractual documents to reflect the consensus arrived at in regard to the changes in the exchange trading days.