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Market Quotations under the 1992 ISDA Master Agreement

Market Quotation is a payment measure which may be selected by parties under a 1992 ISDA Master Agreement. A Market Quotation is determined on the basis of quotations from leading dealers (*i.e.*, Reference Market-makers) in the relevant market selected by the party determining a Market Quotation (the Non-Defaulting Party in the case of the Lehman bankruptcy).

Please note the following:

- Under the 1992 ISDA Master Agreements the quotation provided by Reference Market-makers can be for one or more Terminated Transactions. Therefore, a quotation may be obtained for an entire portfolio of Terminated Transactions, a group of Terminated Transactions (for example, a portfolio of equity derivatives) or one Terminated Transaction.
- The Market Quotation provided by the Reference Market-makers will be for the replacement cost of the relevant Terminated Transaction(s). If fewer than three quotations are provided (*i.e.*, a Market Quotation cannot be determined) or a Market Quotation would not (in the reasonable belief of the party making the determination) produce a commercially reasonable result, Loss will apply in respect of the relevant Terminated Transaction or group of Terminated Transactions.
- The decision to fall back to Loss is one that must be made by the Determining Party based on the particular facts, market conditions and transaction(s) in question. ISDA has been asked whether it could facilitate some form of agreement among market participants that they should fall back to Loss in the event of a close-out of a large market participant where it proves difficult to obtain quotations. ISDA does not consider this to be appropriate or consistent with the terms of the 1992 ISDA Master Agreement.
- The definition of “Market Quotation” acknowledges the practical difficulties that may arise in obtaining quotations from Reference Market-makers on the relevant Early Termination Date and, accordingly, provides that a party making the determination of Market Quotation may request quotations “on or as soon as reasonably practicable after the relevant Early Termination Date”.

The 2002 ISDA Master Agreement introduced the Close-out Amount payment measure to offer greater flexibility to the party making the determination of the amount due upon the designation and occurrence of an Early Termination Date and to address some of the potential practical challenges of Market Quotation that have become apparent during periods of market stress.

ISDA has published a Form of Amendment to the 1992 ISDA Master Agreement to allow parties to bilaterally amend sections of the 1992 ISDA Master Agreement to add Close-out Amount and delete Market Quotation and Loss. ISDA strongly recommends that parties using the 1992 ISDA Master Agreement move to the 2002 ISDA Master Agreement or amend their 1992 ISDA Master Agreements to add Close-out Amount and delete Market Quotation and Loss.