

The Foreign Exchange Committee

33 Liberty Street, 9th Floor
New York, NY 10045

April 18, 2002

Mr. Michael M. Chamberlin
Executive Director
EMTA
63 Wall St., 20th Floor
New York, NY 10005

Dear Mr. Chamberlin,

The Foreign Exchange Committee supports the efforts of EMTA to revisit how the marketplace in non-deliverable forwards ("NDFs") should respond to unscheduled holidays in emerging market jurisdictions. Market participants have voiced concern that the current approach toward unscheduled holidays has not proven to be effective in dealing with prolonged market closures, in light of the holiday period that emerged in Argentina over the turn of the year. The Committee understands that developing a long-term solution to unscheduled holidays will involve market participants' consideration of complicated issues that may take some time to resolve. At the same time, the Committee shares EMTA's concern for the trade of Argentine peso NDF contracts given the current state of uncertainty in the NDF marketplace.

In an effort to enhance market certainty, the Committee recommends that an interim step be taken to provide a recommended approach to dealing with unscheduled holidays for Argentine peso NDFs. Market participants agree to confirmations based on EMTA's templates, which generally provide that counterparties should wait 8 days after an unscheduled holiday occurs before turning to calculation agents to determine a settlement rate for NDFs. The Committee recommends that the initial deferral period for valuation of Argentine peso NDFs be extended from 8 to 30 days, in order to provide more time for local foreign exchange markets to reopen after an unscheduled holiday. Under this approach, the valuation date for Argentine peso NDFs should take place during the initial 30 day deferral period if and when local markets reopen (i.e., on the next available business day as defined in the documentation). In the Committee's view, it would be appropriate for valuation of all deferred Argentine peso NDF trades to take place at the end of the initial deferral period.

The Committee also recommends that a calculation agent should have discretion to further defer the valuation date for Argentine peso NDFs beyond the 30th day after an unscheduled holiday, if the calculation agent determines that it is appropriate to do so on the 30th day in light of prevailing market conditions at that time. It is important to emphasize that this approach is being recommended as an interim measure to promote market certainty for Argentine peso NDFs. The Committee believes that the long-term interests of the NDF market would be best served by a mechanism that does not rely on calculation agents to determine a settlement rate. Towards that end, the Committee would recommend that EMTA work with market participants to develop valuation

methodologies that would be efficient and effective in the event of unscheduled market holidays.

More generally, the Committee recognizes the need for a wholesale approach toward unscheduled holidays across all currencies. It would encourage EMTA, in collaboration with the FMLG and ISDA, to strive for a comprehensive revision to NDF market documentation as quickly as possible. The Committee commends EMTA in its efforts to foster fair and efficient market practices and will continue to support EMTA in its efforts.

David Puth
Chairman
Foreign Exchange Committee