

# Barrier Options

***Suggested Templates  
for European Knock-Out/  
Knock-In Options  
and Binary Options***

## TRANSMITTAL LETTER

September 28, 2000

### Committee Recommends Use of Two New Templates

The Foreign Exchange Committee recommends the use of two new templates: (1) the European knock-out/knock-in option template, and (2) the binary option template.

At the request of various market participants, the Committee convened a special study group to produce foreign exchange exotic option templates that are designed to reflect current market practice. The first template, on pages 61-63, applies to European knock-out options and knock-in options. The second template, on pages 65-67, applies to binary options. The Foreign Exchange Committee thinks the templates will improve and streamline the documentation process for these specific options and strongly encourages the use of these templates by market participants.

The Foreign Exchange Committee expresses its appreciation to Hamish Findlater (Credit Suisse First Boston), Patricia Hogan and Daniel Ruperto (Goldman Sachs), Gigi Chavez and Laura DeForest (Morgan Stanley), and Ruth Laslo and Annette Spencer (UBS-Warburg) for the substantial time and effort spent on this project.

# European Knock-Out/Knock-In Options

## Suggested Template

Date: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Dear Sirs:

The purpose of this document (this "Confirmation") is to confirm the terms and conditions of the Transaction entered into on the Trade Date specified below (the "Transaction"). This Confirmation constitutes a "Confirmation" as referred to in the Agreement below.

The definitions and provisions contained in the 1998 ISDA *FX and Currency Option Definitions*—as published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Traders Association, and the Foreign Exchange Committee—are incorporated into this Confirmation. In the event of any inconsistency between those definitions and provisions and this Confirmation, this Confirmation will govern.

1. This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement dated as of [date], as amended and supplemented from time to time (the "Agreement"), between [\_\_\_\_\_] ("Party A") and [\_\_\_\_\_] ("Party B"). All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

2. The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date: \_\_\_\_\_

Seller: \_\_\_\_\_

Buyer: \_\_\_\_\_

Currency Option Style: European Knock-Out<sup>1</sup> Option

Call Currency and Call Currency Amount: \_\_\_\_\_

Put Currency and Put Currency Amount: \_\_\_\_\_

Strike Price: \_\_\_\_\_

Out-Strike Price<sup>2</sup>: \_\_\_\_\_

<sup>1</sup>For Knock-In Option, amend description accordingly.

<sup>2</sup>For Knock-In Option, amend accordingly to **In-Strike Price**.

[Event Period Start Time and Date: \_\_\_\_\_ Time Currency Option Is Entered into; Trade Date: \_\_\_\_\_  
 Event Period End Time and Date: \_\_\_\_\_ Expiration Time; Expiration Date]<sup>3</sup>: \_\_\_\_\_  
 Initial Spot Rate: \_\_\_\_\_ Expiration Time: \_\_\_\_\_  
 Expiration Date: \_\_\_\_\_ Applicable: \_\_\_\_\_  
 [Automatic Exercise: \_\_\_\_\_ Deliverable]<sup>4</sup>: \_\_\_\_\_  
 Settlement: \_\_\_\_\_ Settlement Date: \_\_\_\_\_  
 Premium: \_\_\_\_\_ Premium Payment Date: \_\_\_\_\_  
 Calculation Agent: \_\_\_\_\_

### 3. Additional definitions for the Transaction to which this Confirmation relates are as follows:

"Event Period" means the period commencing on the date and at the time this Currency Option is entered into and ending at the Expiration Time on the Expiration Date.<sup>5</sup>

"Knock-Out Event" means that, at any time during the Event Period,<sup>6</sup> the Spot Exchange Rate (in comparison to the Initial Spot Rate) is equal to or beyond the Out-Strike Price,<sup>7</sup> as determined by the Calculation Agent.<sup>8</sup>

"Spot Exchange Rate" means the price<sup>9</sup> in the Spot Market for one or more actual foreign exchange transactions involving the Currency Pair (or cross-rates constituting such Currency Pair) which is the subject of this Currency Option as determined by the Calculation Agent.

"Spot Market" means the global spot foreign exchange market, open continuously from 5:00 a.m. Sydney time on a Monday in any week to 5:00 p.m. New York time on the Friday of that week.

### 4. Additional terms of the Transaction to which this Confirmation relates are as follows:

Notification of event: The Calculation Agent shall promptly notify the other Party (or Parties if the Calculation Agent is not a Party) of the occurrence of an event relating to this Currency Option. A failure to give such notice shall not prejudice or invalidate the occurrence or effect of an event.

<sup>3</sup>Specify for flexible ("window") event periods. Can be used for normal options—see note 5.

<sup>4</sup>Not necessary to specify, as presumed by 1998 *Definitions*.

<sup>5</sup>This is the "vanilla" formulation. For flexible ("window") event periods, or in any event, specify commencing **at the Event Period Start Time and Date, and ending at the Event Period End Time and Date.**

<sup>6</sup>For At-Expiration Option, specify at the Expiration Time on the Expiration Date.

<sup>7</sup>For At-Expiration Option, omit the Initial Spot Rate and specify the direction in which the barrier must be breached. That is: **the Spot Exchange Rate is greater than or equal to the Out-Strike Price [for "Call" type]; the Spot Exchange Rate is less than or equal to the Out-Strike Price [for "Put" type].**

<sup>8</sup>For Knock-In Option, amend accordingly to Knock-In Event and In-Strike Price.

<sup>9</sup>Previous versions added the text "at the time at which such price is to be determined." This was considered to be superfluous.

Exercise: This Currency Option may be exercised or deemed exercised only if a Knock-Out Event has not occurred at or prior to the Expiration Time on the Expiration Date.<sup>10</sup>

Settlement: Unless otherwise agreed, this Currency Option if exercised shall be settled on its Settlement Date by the payment by each Party to the other of the full amount of the Put Currency Amount or Call Currency Amount, as the case may be.

5. Account Details: \_\_\_\_\_

6. Offices:

The Office of [Party A] for this Transaction is \_\_\_\_\_ and

the Office of [Party B] for this Transaction is \_\_\_\_\_.

This confirmation supersedes and replaces any other confirmation, if any, sent in connection with this transaction on or prior to the date hereof.

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing a copy of this Confirmation enclosed for that purpose and returning it to us or by sending to us a letter substantially similar to this letter, which sets forth the material terms of the Transaction to which this Confirmation relates and indicates your agreement to those terms.

Yours sincerely,

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Confirmed as of the date first above written:

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

<sup>10</sup>This condition prevails over Section 3.6 of the FX Definitions. Although a Notice of Exercise can otherwise be irrevocable and "effective" as provided in that section, or the option has prima facie been automatically exercised, the absence of a Knock-Out Event is an overriding condition. For Knock-In Option, amend accordingly to a **Knock-In Event has occurred**.

# Binary Options

## Suggested Template

Date: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Dear Sirs:

The purpose of this document (this "Confirmation") is to confirm the terms and conditions of the Transaction entered into on the Trade Date specified below (the "Transaction"). This Confirmation constitutes a "Confirmation" as referred to in the Agreement below.

The definitions and provisions contained in the 1998 ISDA *FX and Currency Option Definitions*—as published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Traders Association, and the Foreign Exchange Committee—are incorporated into this Confirmation. In the event of any inconsistency between those definitions and provisions and this Confirmation, this Confirmation will govern.

1. This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement dated as of [date], as amended and supplemented from time to time (the "Agreement"), between [\_\_\_\_\_] ("Party A") and [\_\_\_\_\_] ("Party B"). All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

2. The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date: \_\_\_\_\_

Seller: \_\_\_\_\_

Buyer: \_\_\_\_\_

Currency Option Style: One-Touch Binary Option<sup>1</sup>

Currency Pair: \_\_\_\_\_

Binary Payout: \_\_\_\_\_

Binary Level: \_\_\_\_\_

<sup>1</sup>Or specify as appropriate: **no-touch**; **at expiration**; **call/put**.

[Event Period Start Time and Date: \_\_\_\_\_ Time Currency Option Is Entered into; Trade Date: \_\_\_\_\_  
 Event Period End Time and Date: \_\_\_\_\_ Expiration Time; Expiration Date]<sup>2</sup>: \_\_\_\_\_  
 Initial Spot Rate<sup>3</sup>: \_\_\_\_\_  
 Expiration Date: \_\_\_\_\_ Expiration Time: \_\_\_\_\_  
 Settlement Date: \_\_\_\_\_ [Date]<sup>4</sup>  
 Premium: \_\_\_\_\_ Premium Payment Date: \_\_\_\_\_  
 Calculation Agent: \_\_\_\_\_

### 3. Additional definitions for the Transaction to which this Confirmation relates are as follows:

"Event Period" means the period commencing on the date and at the time this Currency Option is entered into and ending at the Expiration Time on the Expiration Date.<sup>5</sup>

"Binary Event" means that, at any time during the Event Period,<sup>6</sup> the Spot Exchange Rate (in comparison to the Initial Spot Rate) is equal to or beyond the Binary Level,<sup>7</sup> as determined by the Calculation Agent.

"Spot Exchange Rate" means the price in the Spot Market for one or more actual foreign exchange transactions involving the Currency Pair (or cross-rates constituting such Currency Pair) which is the subject of this Currency Option as determined by the Calculation Agent.

"Spot Market" means the global spot foreign exchange market, open continuously from 5:00 a.m. Sydney time on a Monday in any week to 5:00 p.m. New York time on the Friday of that week.

### 4. Additional terms of the Transaction to which this Confirmation relates are as follows:

Notification of event: The Calculation Agent shall promptly notify the other Party (or Parties if the Calculation Agent is not a Party) of the occurrence of an event relating to this Currency Option. A failure to give such notice shall not prejudice or invalidate the occurrence or effect of an event.

Settlement: If a Binary Event has occurred,<sup>8</sup> the Seller will pay the Buyer the Binary Payout on the Settlement Date.

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<sup>2</sup>Specify for flexible ("window") event periods. Can be used for normal options (see note 5 in Knock-Out/Knock-In template).

<sup>3</sup>Not required for at-expiration options.

<sup>4</sup>For an instant payout (not applicable for at-expiration binaries) specify: **Two Business Days after the date that the Binary Event (if any) occurs.**

<sup>5</sup>This is the "vanilla" formulation. For flexible ("window") event periods, or in any event, specify **commencing at the Event Period Start Time and Date, and ending at the Event Period End Time and Date.**

<sup>6</sup>For At-Expiration Binary, specify **at the Expiration Time on the Expiration Date.**

<sup>7</sup>For an At-Expiration Binary, omit the Initial Spot Rate and specify the direction in which the barrier must be breached. That is: **the Spot Exchange Rate is greater than or equal to the Binary Level [for "Call" type]; the Spot Exchange Rate is less than or equal to the Binary Level [for "Put" type].**

<sup>8</sup>For No-touch Binary, specify **if no Binary Event has occurred.**

5. Account Details: \_\_\_\_\_

6. Offices:

The Office of [Party A] for this Transaction is \_\_\_\_\_ and

the Office of [Party B] for this Transaction is \_\_\_\_\_.

This confirmation supersedes and replaces any other confirmation, if any, sent in connection with this transaction on or prior to the date hereof.

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing a copy of this Confirmation enclosed for that purpose and returning it to us or by sending to us a letter substantially similar to this letter, which sets forth the material terms of the Transaction to which this Confirmation relates and indicates your agreement to those terms.

Yours sincerely,

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Confirmed as of the date first above written:

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_