

COMMITTEE LETTER

Commenting on Unscheduled Holidays

April 18, 2002

Michael M. Chamberlin
Executive Director
Emerging Markets Traders Association
63 Wall Street, 20th Floor
New York, NY 10005

Dear Mr. Chamberlin,

The Foreign Exchange Committee supports the efforts of the Emerging Markets Traders Association (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 to unscheduled holidays has not proven effective in dealing with prolonged market closures such as the holiday period that emerged in Argentina in December 2001. The Committee understands that developing a long-term solution to unscheduled holidays will ask that market participants consider complicated issues that may take some time to resolve. At the same time, the Committee shares EMTA's concern regarding the trade of Argentine peso NDF contracts given the current state of uncertainty in the NDF marketplace.

To enhance market certainty, the Committee recommends an interim step be taken to respond to unscheduled holidays for Argentine peso NDFs. Market participants currently agree to confirmations based on EMTA's templates, which generally provide that counterparties should wait eight 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 eight to thirty days. This would provide more time for local foreign exchange markets to

reopen after an unscheduled holiday. Under that approach, the valuation date for Argentine peso NDFs should take place during the initial thirty-day deferral period if and when local markets reopen (that is, 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 thirtieth day after an unscheduled holiday if the calculation agent determines it is appropriate to do so on the thirtieth day in light of prevailing market conditions. It is important to emphasize that this approach is 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. To that end, the Committee recommends that EMTA work with market participants to develop valuation methods that would be efficient and effective in the event of unscheduled market holidays.

More generally, the Committee recognizes the need for a comprehensive approach to unscheduled holidays across all currencies. The Committee encourages EMTA, in collaboration with the Financial Markets Lawyers Group (FMLG) and the International Swaps and Derivatives Association (ISDA), to strive for a comprehensive revision of NDF market documentation as quickly as possible. The Committee commends EMTA's efforts to foster fair and efficient market practices and will continue to support those initiatives.

David Puth
Chairman
Foreign Exchange Committee