

■ ANNOUNCEMENT

Technical Revisions to the 2005 Barrier Option Supplement

New York, May 5, 2006

The Foreign Exchange Committee (FXC), the International Swaps and Derivatives Association, Inc. (ISDA), and EMTA, Inc., announce two technical revisions to the 2005 Barrier Option Supplement to the *1998 FX and Currency Option Definitions* (the "2005 Supplement").

The first revision suggests how to incorporate into a barrier or binary option transaction the terms of the 2005 Supplement. The relevant confirmation of the barrier or binary option transaction should state that "the *1998 FX and Currency Option Definitions*, as amended by the 2005 Barrier Option Supplement, as published by the International Swaps and Derivatives Association, Inc., EMTA, Inc., and the Foreign Exchange Committee are incorporated into this Confirmation." For purposes of clarity, this provision has been added to Exhibits I and II of the 2005 Supplement, which illustrate how barrier and binary options may be confirmed under the terms of the 2005 Supplement and the *1998 FX and Currency Option Definitions* ("*1998 Definitions*") (see the second paragraph and footnote 2 of each Exhibit).

The second revision further describes the approach taken to the conventions for stating currency pairs in the Currency Pair Matrix that was published with the 2005 Supplement. The Matrix is provided as a best practice to facilitate the use of standard market convention when specifying the exchange rates relating to certain terms in a confirmation of a barrier or binary option transaction that incorporates the provisions of the 2005 Supplement. The introductory statement to the Matrix has been revised to highlight that its conventions for stating currency pairs may be different from trading conventions. No changes have been made to the Matrix itself, only to the introductory text.

Supplementary Note to Currency Pair Matrix

This Currency Pair Matrix, dated December 5, 2005, is provided as a best practice to facilitate the use of standard market convention when specifying the exchange rates relating to certain terms in a confirmation that incorporates the provisions of the 2005 Barrier Option Supplement to the *1998 FX and Currency Option Definitions* (the "2005 Supplement"), published by ISDA, Inc., EMTA, Inc., and the Foreign Exchange Committee. These terms include the Barrier Level defined in Section 3.9(e) of the 2005 Supplement, Upper and Lower Barrier Level defined in Section 3.9(q) and 3.9(k) of the 2005 Supplement, and the Initial Spot Price, which may be included in the confirmation pursuant to Section 3.9(o) of the 2005 Supplement. The Matrix addresses the currencies set out in Section 4.3 of Annex A of the *1998 Definitions*. All currency pairs in the Matrix are presented in the form of a fraction ("Currency Pair Fraction"). The numerator of this fraction is defined as the "Numerator Currency," and the denominator of this fraction is defined as the "Denominator Currency." Each Currency Pair Fraction is expressed as the amount of Numerator Currency per one unit of Denominator Currency. Updates to the Matrix will be published on the websites of the cosponsors.

The approach taken to stating each currency pair in this Matrix is generally consistent with the approach taken in the *1998 Definitions*. For non-deliverable transactions, Annex A of the *1998 Definitions* expresses each settlement rate option as a spot rate for the reference currency per unit of settlement currency. Accordingly, the most common expression in confirmations of deliverable and non-deliverable transactions has become a statement of the counter-currency in the numerator and the base currency in the denominator of the Currency Pair Fraction (x units of counter-currency for one unit of base currency). This expression can differ from the common trading practice of quoting the base currency in the numerator and the counter-currency in the denominator of the Currency Pair Fraction (one unit of the base currency for x units of the counter-currency). Those responsible for preparing confirmations of transactions under the 2005 Barrier Option Supplement should ensure that the price and other agreed-upon terms are expressed in a manner that is consistent with the Matrix.

It should be noted that, in certain instances, the Matrix provides expressions of currency pairs that differ from the approach taken in the *1998 Definitions*. At the time that the *1998 Definitions* were developed, trading in certain currency pairs was not common, and certain products, such as barrier options, were not addressed. In particular, more recent currency pairs in the Matrix are not

expressed as the amount of reference currency per unit of settlement currency when the result would be an unduly small numerical expression of an exchange rate. For example, the Matrix provides for specification of JPY/BRL for relevant terms of confirmations of transactions documented under the 2005 Supplement (the amount of JPY as settlement currency, for one unit of BRL as reference currency). Moreover, the Matrix is to be used in conjunction with the 2005 Supplement, specifically for expressing currency pairs in confirmations of barrier options to clearly establish rate movement and barrier breach. Because the Matrix is not intended to standardize market conventions for all purposes and transaction types, it is possible that certain currency transactions could include exchange rates that are expressed using conventions not consistent with the Matrix. For example, for purposes of valuation of a non-deliverable transaction with BRL as the reference currency and JPY as the settlement currency, a BRL/JPY exchange rate may be specified even though the Matrix specifies JPY/BRL for a barrier currency option transaction involving the same currency pair.