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# **1997 ISDA**

# **Government**

# **Bond Option**

# **Definitions**

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**ISDA<sup>®</sup>**

**INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION, INC.**

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600 Fifth Avenue, 27th Floor  
Rockefeller Center  
New York, N.Y. 10020-2302

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## **INTRODUCTION TO THE 1997 ISDA GOVERNMENT BOND OPTION DEFINITIONS**

The 1997 ISDA Government Bond Option Definitions are intended for use in confirmations of individual transactions ("Confirmations") governed by agreements such as the 1992 ISDA Master Agreements (the "ISDA Master Agreements") published by the International Swaps and Derivatives Association, Inc. ("ISDA"). Copies of the ISDA Master Agreements are available from the executive offices of ISDA. A sample form of letter agreement or telex constituting a Confirmation is attached as Exhibit I to these Definitions.

The Definitions are primarily an expansion and revision of the 1993 Confirmation of OTC Bond Option Transaction (Long Form). They provide the basic framework for the documentation of an over-the-counter ("OTC") government bond option transaction. As in the case of other product-specific Definitions published by ISDA, persons using these Definitions to document an OTC government bond option transaction may adapt or supplement the standard provisions set out in these Definitions in accordance with the specific economic terms agreed between the parties to the relevant transaction.

These Definitions were developed by a working group of ISDA member institutions, including most of the leading participants in the OTC European government bond options markets. The Definitions were developed by the working group based, as far as possible, on market practice in those markets. Inevitably, in certain areas market practice has not been uniform or has otherwise not provided definitive guidance. The working group has given studied consideration to these issues in formulating the provisions set out in these Definitions. Each member of the working group has, where appropriate, sought the views of its own trading, operational, legal, compliance and other relevant personnel. None of this, however, obviates the need for each user of these Definitions to review the provisions of these Definitions carefully and to form its own independent judgment on the appropriateness of these Definitions for use by the institution in documenting OTC government bond option transactions.

The Definitions expressly contemplate options on certain European government bonds which are capable of cash settlement or physical settlement. Parties may find these Definitions a useful starting point when drafting a Confirmation for an option transaction relating to non-European government bonds or corporate bonds.

ISDA has provided these Definitions to assist the smooth and efficient functioning of the OTC government bond options markets by providing a common set of terms for parties to use in preparing confirmations of OTC government bond option transactions. *The precise documentation of each individual transaction remains, however, the responsibility of the parties concerned. ISDA assumes no responsibility for any use to which these Definitions may be put, including, without limitation, any use of these Definitions in connection with any OTC government bond option transactions. Each party to an OTC government bond option transaction evidenced by a Confirmation referring to or incorporating these Definitions must satisfy itself that the Definitions are appropriate for the transaction, have been properly used and/or adapted in the Confirmation for the transaction and that the Confirmation has generally been properly drafted, in each case to reflect the commercial intentions of the parties.*

ISDA has not undertaken to review all applicable laws and regulations of any jurisdiction in which these Definitions may be used, and therefore parties are advised to consider the application of any relevant jurisdiction's regulatory, tax, accounting, exchange or other requirements that may exist in connection with the entering into and documenting of an OTC government bond option transaction.

## 1997 ISDA GOVERNMENT BOND OPTION DEFINITIONS

Any or all of the following definitions and provisions may be incorporated into a document by wording in the document indicating that, or the extent to which, the document is subject to the 1997 ISDA Government Bond Option Definitions (as published by the International Swaps and Derivatives Association, Inc.). All definitions and provisions so incorporated in a document will be applicable to that document unless otherwise provided in that document, and all terms defined in these Definitions and used in any definition or provision that is incorporated by reference in a document will have the respective meanings set forth in these Definitions unless otherwise provided in that document. Any term used in a document will, when combined with the name of a party, have meaning in respect of the named party only.

### ARTICLE 1

#### GOVERNMENT BOND OPTION TRANSACTION; BONDS

**Section 1.1. Government Bond Option Transaction.** "Government Bond Option Transaction" means (a) any transaction that is an over-the-counter option relating to bonds or any other debt securities issued by a government, governmental entity, agency or subdivision or a transnational or supranational organization and (b) any other transaction identified as a Government Bond Option Transaction in the related Confirmation.

**Section 1.2. Bonds.** "Bonds" means, in respect of a Government Bond Option Transaction, the bonds or debt securities specified as such in the related Confirmation, for which purpose:

- (a) if a coupon or price, maturity and issuer are specified in the related Confirmation, the bonds or debt securities issued by that issuer with that coupon or price and that maturity; and
- (b) the following designations mean the bonds or debt securities and their respective issuers as indicated:

<u>Designation</u>	<u>Fuller Reference</u>	<u>Issuer Country</u>
Austrian Bunds	Bundesanleihe (long-term bonds) issued by the Republic of Austria	Austria
Austrian BOBL or OBL	Bundesobligationen (medium-term securities) issued by the Republic of Austria	Austria
Austrian Public Bonds	Anleihe der öffentlichen Hand (municipal bonds) issued by the Republic of Austria or the federal provinces, municipalities or state-owned companies of the Republic of Austria.	Austria

§ 1.2(b)

<b><u>Designation</u></b>	<b><u>Fuller Reference</u></b>	<b><u>Issuer Country</u></b>
Belgian Philippe Bonds	Philippe Bonds (bullet bonds) issued by the Kingdom of Belgium	Belgium
Belgian Classical Bonds	Classical Bonds (linear bonds, traditionally issued with a call) issued by the Kingdom of Belgium	Belgium
OLOs	Obligation - Lineaire Obligatie (straight non-callable bonds issued at monthly auction) issued by the Kingdom of Belgium	Belgium
Danish Government Bonds	Obligationer (long-term bonds) issued by the Kingdom of Denmark	Denmark
Danish Treasury Bills	Statkammerbeviser (zero-coupon securities with a maturity of between three and five months) issued by the Kingdom of Denmark	Denmark
Danish Treasury Notes	Statsgældsbeviser (medium-term securities with a maturity of between 18 and 30 months) issued by the Kingdom of Denmark	Denmark
Finnish Government Bonds	Serial and Housing Bonds (long-term bonds) issued by the Government of Finland	Finland
OATs	Obligations Assimilables du Trésor (fixed or floating rate bonds denominated in FRF or ECU) issued by the Republic of France	France
BTANs	Bons du Trésor à Taux Annuel Normalisé (fixed rate securities with a maturity of between two and five years) issued by the Republic of France	France
BTFs	Bons du Trésor à Taux Fixe (short-term bonds) issued by the Republic of France	France
Emprunts	Emprunts d'Etat (standard bonds issued prior to the creation of OATS) issued by the Republic of France	France
Bunds	Bundesanleihe (long-term bonds) issued by the Federal Republic of Germany	Germany

<b><u>Designation</u></b>	<b><u>Fuller Reference</u></b>	<b><u>Issuer Country</u></b>
Bobl	Bundesobligationen (medium-term securities with a maturity of five years) issued by the Federal Republic of Germany	Germany
German Treasury Notes	Schatzanweisungen (treasury securities) issued by the Federal Republic of Germany	Germany
German Unity Fund Bonds	Anleihe (long-term bonds) issued by the Fonds Deutsche Einheit	Germany
German Agency Bonds	Agency Bonds (public bonds) issued by federal or state authorities of the Federal Republic of Germany	Germany
Treuhandanstalt or TOBL (now Erblastentilgungsfonds)	Anleihe (long-term bonds issued to deal with unification-related debt) issued by the Treuhandanstalt/Erblastentilgungsfonds and guaranteed by the Federal Republic of Germany	Germany
FCY-Index Bonds	Omologia Ethniko Danio se Synallogma (long-term foreign currency-indexed bonds) issued by the Bank of Greece	Greece
Greek Treasury Bills	Treasury Bills (short-term securities) issued by the Bank of Greece	Greece
Greek Treasury Bonds	Treasury Bonds (floating-rate bonds with a maturity of three, five or seven years) issued by the Bank of Greece	Greece
Greek Government Bonds	Omologo Ellinikou Dimosiou (short to medium-term bonds with a maturity of between two and seven years) issued by the Bank of Greece	Greece
Greek Government Bonds in ECU	Omologo Ellinikou Dimosiou se ECU (short to medium-term ECU-denominated bonds with a maturity of between two and seven years) issued by the Bank of Greece	Greece
Greek Lottery Bonds	Ethniko Lahiotoro Danio (lottery bonds) issued by the Bank of Greece	Greece
Irish Government Bonds	Government Bonds (fixed or floating rate bonds) issued by Ireland	Ireland

§ 1.2(b)

<b><u>Designation</u></b>	<b><u>Fuller Reference</u></b>	<b><u>Issuer Country</u></b>
BOT	Buoni Ordinari del Tesoro (short-term zero-coupon bonds) issued by the Republic of Italy	Italy
BTE	Buoni Ordinari del Tesoro in ECU (short-term ECU-denominated bonds with coupon paid on maturity) issued by the Republic of Italy	Italy
CCT	Certificati di Credito del Tesoro (medium to long-term treasury floating rate securities indexed to BOT yield) issued by the Republic of Italy	Italy
BTP	Buoni del Tesoro Poliennali (fixed rate treasury bonds with semi-annual coupon and bullet payment on maturity) issued by the Republic of Italy	Italy
CTO	Certificati del Tesoro con Opzione (fixed rate notes carrying a put option exercisable at the end of the third year) issued by the Republic of Italy	Italy
CTE	Certificati del Tesoro in ECU (fixed rate bonds with annual coupons) issued by the Republic of Italy	Italy
CTZ	Zero Coupon Certificati del Tesoro (zero-coupon bonds) issued by the Republic of Italy	Italy
OLUX	OLUX (linear bonds with a maturity of ten years) issued by the Grand Duchy of Luxembourg	Luxembourg
Dutch State Loans or DSLs	Loans (long-term bonds with an original maturity of two years or more) issued by the Kingdom of The Netherlands	Netherlands
Norwegian Government Bonds	Statobligasjoner (bonds with a maturity of one year or more) issued by the Kingdom of Norway	Norway
Norwegian Treasury Bills	Sertifikatlån (securities with a maturity of less than one year) issued by the Kingdom of Norway	Norway

<b><u>Designation</u></b>	<b><u>Fuller Reference</u></b>	<b><u>Issuer Country</u></b>
Bonos	Bonos del Estado (bonds with annual coupons issued with a maturity of between three and five years) issued by the Kingdom of Spain	Spain
Obligaciones	Obligaciones del Estado (bonds with annual coupons issued with a maturity of between 10 and 15 years) issued by the Kingdom of Spain	Spain
Letras	Letras del Tesoro (treasury securities with a maturity of one year or less) issued by the Treasury of the Kingdom of Spain	Spain
Swedish Government Bonds	Treasury Bonds (long-term bonds) issued by the Kingdom of Sweden	Sweden
Gilts	UK Government Stock (sterling denominated securities with an original maturity of greater than one year) issued by the United Kingdom (including strips of such gilts)	United Kingdom
Index-linked Gilts	Index-linked UK Government Stock (securities with interest and redemption value linked to the UK retail price index) issued by the United Kingdom	United Kingdom
UK Treasury Bills	Treasury Bills (securities with an original maturity of one year or less) issued by the United Kingdom	United Kingdom
Non-Sterling UK Debt Securities	UK Government Stock (non-sterling denominated debt securities with an original maturity of greater than one year) issued by the United Kingdom	United Kingdom

## ARTICLE 2

### GENERAL TERMS AND PROVISIONS RELATING TO GOVERNMENT BOND OPTION TRANSACTIONS

#### **Section 2.1. Certain General Definitions Relating to Government Bond Option Transactions.**

When used in respect of a Government Bond Option Transaction, the following terms have the indicated meanings:

(a) **Number of Options.** "Number of Options" means the number specified as such in the related Confirmation, being the number of Options comprised in the relevant Government Bond Option Transaction.

(b) **Option Entitlement.** "Option Entitlement" means the nominal amount, stated as an amount in the relevant currency, specified as such in the related Confirmation, which is the nominal amount of the relevant Bonds to which one Option relates.

(c) **Option.** "Option" means each unit into which the Government Bond Option Transaction is divided for purposes of exercise, valuation or settlement.

(d) **Strike Price.** "Strike Price" means either an amount expressed in the relevant currency or a percentage specified or otherwise determined as provided in the related Confirmation.

(e) **Trade Date.** "Trade Date" means the date on which the parties enter into the Government Bond Option Transaction,

(f) **Exchange.** "Exchange" means each securities exchange or trading market specified as such in the related Confirmation (including any successor to that securities exchange or trading market) for so long as the Bonds are listed or otherwise included in that securities exchange or trading market, If the specified Exchange ceases to list or otherwise include the Bonds and the Bonds are listed or otherwise included in any other securities exchange or trading market, the parties will negotiate in good faith to agree on an alternative securities exchange or trading market.

#### **Section 2.2. Parties.**

(a) **Seller.** "Seller" means, in respect of a Government Bond Option Transaction, the party specified as such or as writer in the related Confirmation, which party grants to Buyer, upon the exercise or deemed exercise of an Option pursuant to Article 4, (i) if Cash Settlement is applicable, the right, but not the obligation, to cause Seller to pay to Buyer the Cash Settlement Amount, if any, on the relevant Settlement Date and (ii) if Physical Settlement is applicable, the Physical Settlement Entitlement.

(b) **Buyer.** "Buyer" means, in respect of a Government Bond Option transaction, the party specified as such in the related Confirmation, which party will, on each Premium Payment Date, pay to Seller the Premium in respect of that Premium Payment Date.

**Section 2.3. Option Style.**

(a) **American.** "American" means a style of Government Bond Option Transaction pursuant to which the right or rights granted are exercisable during an Exercise Period that consists of more than one day.

(b) **European.** "European" means a style of Government Bond Option Transaction pursuant to which the right or rights granted are exercisable only on the Expiration Date.

**Section 2.4. Option Type.**

(a) **Call.** "Call" means a type of Government Bond Option Transaction specified as such in the related Confirmation entitling, subject to any applicable condition precedent, Buyer upon exercise:

(i) if Cash Settlement is applicable, to receive from Seller on the relevant Settlement Date the Cash Settlement Amount if the Spot Price exceeds the Strike Price when computed in accordance with Article 7; and

(ii) if Physical Settlement is applicable, to purchase the Bonds from Seller at the Strike Price in accordance with Article 6,

in each case as more particularly provided in or pursuant to that Confirmation.

(b) **Put.** "Put" means a type of Government Bond Option Transaction specified as such in the related Confirmation entitling, subject to any applicable condition precedent, Buyer upon exercise:

(i) if Cash Settlement is applicable, to receive from Seller on the relevant Settlement Date the Cash Settlement Amount if the Strike Price exceeds the Spot Price when computed in accordance with Article 7; and

(ii) if Physical Settlement is applicable, to sell the Bonds to Seller at the Strike Price in accordance with Article 6,

in each case as more particularly provided in or pursuant to that Confirmation.

**Section 2.5. Terms Relating to Premium.**

(a) **Premium per Option.** "Premium per Option" means, in respect of a Government Bond Option Transaction, the amount specified or otherwise determined as provided in the related Confirmation, which, when multiplied by the relevant Number of Options, will be equal to the Premium.

(b) **Premium.** "Premium" means, in respect of a Government Bond Option Transaction and in respect of a Premium Payment Date, the amount, if any, that is specified or otherwise determined as provided in the related Confirmation and, subject to any applicable condition precedent, is payable by Buyer to Seller on the Premium Payment Date or on each Premium Payment Date if more than one is specified.

§ 2.5(c)

(c) **Premium Payment Date.** "Premium Payment Date" means, in respect of a Government Bond Option Transaction, one or more dates specified or otherwise determined as provided in the related Confirmation, subject to adjustment in accordance with the Following Business Day Convention or, if another Business Day Convention is specified to be applicable to a Premium Payment Date, that Business Day Convention.

### ARTICLE 3

#### OTHER GENERAL DEFINITIONS

**Section 3.1. Confirmation.** "Confirmation" means one or more documents or other confirming evidence exchanged between the parties, which, taken together, confirm all the terms of a Government Bond Option Transaction.

**Section 3.2. Business Day.** "Business Day" means, in respect of any day that is specified in these Definitions or in a Confirmation to be subject to adjustment in accordance with any applicable Business Day Convention, a day on which commercial banks and foreign exchange markets settle payments in the place(s) and on the days specified for that purpose in the relevant Confirmation and, if place(s) and days are not so specified, a day:

(a) on which commercial banks and foreign exchange markets settle payments in the same currency as the payment obligation that is payable on or calculated by reference to that date in;

(i) the financial center or centers indicated for each of the following currencies:

<u>Currency</u>	<u>Financial Center (s)</u>
Australian Dollar	Sydney
Austrian Schilling	Vienna
Belgian Franc	Brussels
Canadian Dollar	Toronto
Danish Krone	Copenhagen
Deutsche Mark	Frankfurt
Dutch Guilder	Amsterdam
Finnish Markka	Helsinki
French Franc	Paris
Greek Drachma	Athens
Hong Kong Dollar	Hong Kong
Irish Pound	Dublin
Italian Lira	Milan
Luxembourg Franc	Brussels and Luxembourg
New Zealand Dollar	Wellington and Auckland
Norwegian Krone	Oslo
Spanish Peseta	Madrid
Sterling	London

<u>Currency</u>	<u>Financial Center(s)</u>
Swedish Krona	Stockholm
Swiss Franc	Zurich
U.S.Dollar	New York
Yen	Tokyo; and

(ii) the principal financial center of a currency, if the currency is other than those currencies specified in Section 3.6 of these Definitions;

(b) that is an ECU Settlement Day, if the payment obligation that is payable on or calculated by reference to that date is to be made in the European Currency Unit; and

(c) that is a Business Day or an ECU Settlement Day, as the case may be, in respect of each relevant currency where the payment obligations that are payable on a Settlement Date are denominated in different currencies.

**Section 3.3. ECU Settlement Day.** "ECU Settlement Day" means any day that (a) is not either (i) a Saturday or a Sunday or (ii) a day which appears as an ECU Non-Settlement Day on the display designated as page "ISDE" on the Reuter Monitor Money Rates Service (or a day so designated by the ECU Banking Association, if ECU Non-Settlement Days do not appear on that page) and, if ECU Non-Settlement Days do not appear on that page (and are not so designated), a day on which payments in the European Currency Unit cannot be settled in the international interbank market and (b) is a day on which payments in the European Currency Unit can be settled by commercial banks and in foreign exchange markets in the place in which the relevant account for payment is located.

**Section 3.4. Seller Business Day.** "Seller Business Day" means any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) and, if Seller is not a commercial bank, which is a scheduled trading day on local securities exchanges in the place(s) specified for that purpose in a Confirmation or, if a place is not so specified, in the city where Seller or, if designated, Seller's Agent is located for the purpose of receiving notices.

**Section 3.5. Exchange Business Day.** "Exchange Business Day" means any day that is a trading day on the Exchange (or on each Exchange if more than one is specified) other than a day on which trading on that Exchange is scheduled to close prior to its regular weekday closing time.

**Section 3.6. Currencies.**

(a) **Australian Dollar.** "Australian Dollar", "A\$" and "AUD" each means the lawful currency of the Commonwealth of Australia.

(b) **Austrian Schilling.** "Austrian Schilling" and "ATS" each means the lawful currency of the Republic of Austria.

(c) **Belgian Franc.** "Belgian Franc", "Bfr" and "BEF" each means the lawful currency of the Kingdom of Belgium.

§ 3.6(d)

(d) **Canadian Dollar.** "Canadian Dollar", "C\$" and "CAD" each means the lawful currency of Canada.

(e) **Danish Krone.** "Danish Krone", "DKr" and "DKK" each means the lawful currency of the Kingdom of Denmark.

(f) **Deutsche Mark.** "Deutsche Mark", "DM" and "DEM" each means the lawful currency of the Federal Republic of Germany.

(g) **Dutch Guilder.** "Dutch Guilder", "DFl" and "NLG" each means the lawful currency of The Kingdom of the Netherlands.

(h) **European Currency Unit.**

(i) "European Currency Unit", "ECU" and "XEU" each is the same as the ECU that is from time to time used as the unit of account of the European Communities. Changes to the ECU may be made by the European Communities, in which event the ECU will change accordingly.

(ii) Under Article 109G of the Treaty establishing the European Communities, as amended by the Treaty on European Union (the "Treaty"), the currency composition of the ECU may not be changed. The Treaty contemplates that European Economic and Monetary Union will occur in three stages, the second of which began on 1 January 1994 with the entry into force of the Treaty on European Union. The Treaty provides that, at the start of the third stage of European Economic and Monetary Union, the value of the ECU as against the currencies of the member states participating in the third stage will be irrevocably fixed, and the ECU will become a currency in its own right. On 17 June 1997, the Council of the European Union adopted Council Regulation (EC) No 1103/97 on certain provisions relating to the introduction of the euro which provides that the name of that currency will be the euro and that, in accordance with the Treaty, substitution of the euro for the ECU will be at the rate of one euro for one ECU. From the start of the third stage of European Economic and Monetary Union, all payments expressed to be payable in ECU, or sums to be calculated by reference to ECU, in respect of a Government Bond Option Transaction will be payable in, or calculated by reference to, euro at the rate of one euro for one ECU.

(i) **Finnish Markka.** "Finnish Markka" and "FIM" each means the lawful currency of the Republic of Finland.

(j) **French Franc.** "French Franc", "Ffr" and "FRF" each means the lawful currency of the Republic of France.

(k) **Greek Drachma.** "Greek Drachma" and "GRD" each means the lawful currency of Greece.

(l) **Hong Kong Dollar.** "Hong Kong Dollar", "HK\$" and "HKD" each means the lawful currency of Hong Kong,

- (m) **Irish Pound.** "Irish Pound", "Irish Punt", "IR£" and "IEP" each means the lawful currency of Ireland.
- (n) **Italian Lira.** "Italian Lira", "Lira" and "ITL" each means the lawful currency of the Republic of Italy.
- (o) **Luxembourg Franc.** "Luxembourg Franc", "Lfr" and "LUF" each means the lawful currency of the Grand Duchy of Luxembourg, including the Commercial Luxembourg Franc and the Financial Luxembourg Franc.
- (i) "Commercial Luxembourg Franc", "Commercial Lfr" and "Commercial LUF" each means the Luxembourg Franc that is used for transactions in foreign currencies that are required by the Belgian-Luxembourg Exchange Institute to be settled on the regulated exchange market of the Belgian-Luxembourg Economic Union.
- (ii) "Financial Luxembourg Franc", "Financial Lfr" and "Financial LUF" each means the Luxembourg Franc that is used for transactions in foreign currencies that may be settled on the exchange market of the Belgian-Luxembourg Economic Union without restriction.
- (p) **New Zealand Dollar.** "New Zealand Dollar", "NZ\$" and "NZD" each means the lawful currency of New Zealand.
- (q) **Norwegian Krone.** "Norwegian Krone", "NKr" and "NOK" each means the lawful currency of the Kingdom of Norway.
- (r) **Spanish Peseta.** "Spanish Peseta", "Pta", "SPp", "SPP" and "ESP" each means the lawful currency of the Kingdom of Spain.
- (s) **Sterling.** "Sterling", "£", "GBP" and "STG" each means the lawful currency of the United Kingdom.
- (t) **Swedish Krona.** "Swedish Krona", "SKr" and "SEK" each means the lawful currency of the Kingdom of Sweden.
- (u) **Swiss Franc.** "Swiss Franc", "Sfr", "CHF" and "SWF" each means the lawful currency of Switzerland.
- (v) **U.S. Dollar.** "U.S. Dollar", "Dollar", "U.S.\$", "\$" and "USD" each means the lawful currency of the United States of America.
- (w) **Yen.** "Yen", "¥" and "JPY" each means the lawful currency of Japan.

§ 3.7(a)

**Section 3.7. Business Day Convention.** (a) "Business Day Convention" means the convention for adjusting any relevant date if it would otherwise fall on a day that is not a Business Day. The following terms, when used in conjunction with the term "Business Day Convention" and a date, will mean that an adjustment will be made if that date would otherwise fall on a day that is not a Business Day so that:

(i) if "Following" is specified, that date will be the first following day that is a Business Day;

(ii) if "Modified Following" or "Modified" is specified, that date will be the first following day that is a Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day; and

(iii) if "Preceding" is specified, that date will be the first preceding day that is a Business Day.

(b) The Business Day Convention applicable to a date that is specified in these Definitions or in a Confirmation to be subject to adjustment in accordance with an applicable Business Day Convention will be (i) the Business Day Convention specified for that date in these Definitions or in that Confirmation and (ii) if such a convention is not so specified for that date but is specified for a Government Bond Option Transaction, the Business Day Convention specified in the Confirmation for that Government Bond Option Transaction.

**Section 3.8. Calculation Agent.** "Calculation Agent" means the party to a Government Bond Option Transaction (or a third party) designated as such for the Government Bond Option Transaction and responsible for (a) calculating the Bonds to be Delivered and the Bond Payment for any Settlement Date, if Physical Settlement is applicable to the Government Bond Option Transaction, (b) calculating the Spot Price in respect of and any Cash Settlement Amount payable on any Settlement Date, if Cash Settlement is applicable to the Government Bond Option Transaction, (c) determining any adjustments following any conversion of the Bonds or for interest following corrections to published prices and (d) giving notice to the parties to the Government Bond Option Transaction on the Calculation Date for any Settlement Date, specifying (i) the Settlement Date, (ii) the party or parties required to make each payment or delivery then due, (iii) the amount or quantity of each payment or delivery then due and (iv) reasonable details as to how each amount or quantity was determined. Whenever the Calculation Agent is required to act, it will do so in good faith, and, except as provided in Section 5.3, its determinations and calculations will be binding in the absence of manifest error.

**Section 3.9. Calculation Date.** "Calculation Date" means, in respect of any Settlement Date, the earliest day on which it is practicable to provide the notice that the Calculation Agent is required to give for that Settlement Date, and in no event later than the close of business on the Business Day next preceding that Settlement Date.

## ARTICLE 4

### EXERCISE OF OPTIONS

#### Section 4.1. Certain General Definitions Relating to Exercise.

(a) **Exercise Period.** "Exercise Period" means (i) in respect of a European style Government Bond Option Transaction, the Expiration Date from, and including, 9:00 a.m. (local time in the specified location of Seller or, where an agent is designated by Seller for the purpose of receiving notice of exercise ("Seller's Agent"), local time in the specified location of Seller's Agent) to, and including, the Expiration Time and (ii) in respect of an American style Government Bond Option Transaction, all days which are both Exchange Business Days and Seller Business Days from, and including, 9:00 a.m. (local time in the specified location of the Seller or, if designated, Seller's Agent) on the Commencement Date to, and including, the Latest Exercise Time on the Expiration Date.

(b) **Exercise Date.** "Exercise Date" means, in respect of each Option exercised or deemed exercised under a Government Bond Option Transaction, the day during the Exercise Period on which that Option is or is deemed to be exercised.

(c) **Latest Exercise Time.** "Latest Exercise Time" means, in respect of a Government Bond Option Transaction, (i) on any day in the Exercise Period other than the Expiration Date, the time specified as such in the related Confirmation and (ii) if such a time is not specified and, in any event, on the Expiration Date, the Expiration Time.

(d) **Expiration Time.** "Expiration Time" means, in respect of a Government Bond Option Transaction, the time specified as such in the related Confirmation.

(e) **Commencement Date.** "Commencement Date" means, in respect of an American style Government Bond Option Transaction, the date specified as such in the related Confirmation or, if such a date is not specified, the Trade Date,

(f) **Expiration Date.** "Expiration Date" means, in respect of a Government Bond Option Transaction, the date specified as such in the related Confirmation or, if that date is not both a Seller Business Day and an Exchange Business Day, the next following day that is both a Seller Business Day and an Exchange Business Day.

**Section 4.2. Procedure for Exercise.** Except when one or more Options are deemed to be automatically exercised pursuant to Section 4.6 and otherwise subject to Section 4.5 if Limited Right to Confirm Exercise is specified to be applicable, Buyer must give irrevocable notice (which may be given orally (including by telephone) unless the parties specify otherwise in the related Confirmation) during the Exercise Period to Seller or, if designated, Seller's Agent of its exercise of an Option. If the notice of exercise is given after the Latest Exercise Time on any day in the Exercise Period, then that notice will be deemed given on the next following day, if any, in the Exercise Period. In the case of a Government Bond Option Transaction to which Partial Exercise is applicable or an American style Government Bond Option Transaction to which Multiple Exercise is applicable, Buyer must specify in the notice the number of Options being exercised on the relevant Exercise Date and, subject to Section 4.4(a) in the event that

§ 4.2

Multiple Exercise is applicable or is deemed to apply and the number of Options remaining unexercised is less than the Minimum Number of Options or greater than the Maximum Number of Options, if Buyer fails so to specify, Buyer shall be presumed to have exercised all the unexercised Options on the relevant Exercise Date. Unless the parties specify otherwise in the related Confirmation, Buyer will execute and deliver to Seller or, if designated, Seller's Agent a written confirmation confirming the substance of any telephonic notice within one Seller Business Day of that notice. Failure to provide that written confirmation will not affect the validity of the telephonic notice.

**Section 4.3. Partial Exercise.** If "Partial Exercise" is applicable to a European style Government Bond Option Transaction, Buyer may exercise less than all the Number of Options of that Government Bond Option Transaction on the Expiration Date. Unless the parties specify otherwise, Partial Exercise will be deemed to apply to any European style Government Bond Option Transaction.

**Section 4.4. Multiple Exercise.** (a) If "Multiple Exercise" is applicable to an American style Government Bond Option Transaction, Buyer may exercise all or less than all the unexercised Options on one or more days in the Exercise Period, but on any such day may not exercise less than the Minimum Number of Options or more than the Maximum Number of Options and, if a number is specified as the "Integral Multiple" in the related Confirmation, the number of exercised Options must be equal to, or be an integral multiple of, the number so specified. Any attempt to exercise on any day in the Exercise Period (i) more than the Maximum Number of Options will be deemed to be an exercise of the Maximum Number of Options (the number of Options, if any, exceeding the Maximum Number of Options being deemed to remain unexercised), (ii) less than the Minimum Number of Options will be ineffective and (iii) an amount of Options not equal to or an integral multiple of the Integral Multiple will be deemed to be an exercise of a number of Options equal to the next lowest integral multiple of the Integral Multiple (the number of Options exceeding that number being deemed to remain unexercised). In the event that the number of Options remaining unexercised on the Expiration Date is less than the Minimum Number of Options, that number of Options will remain unexercised. In the event that the number of Options remaining unexercised on the Expiration Date is greater than the Maximum Number of Options, Buyer may exercise only the specified Maximum Number of Options and the excess will remain unexercised. Unless the parties specify otherwise, Multiple Exercise will be deemed to apply to any American style Government Bond Option Transaction.

(b) "Minimum Number of Options" means, in respect of a Government Bond Option Transaction to which Multiple Exercise is applicable, the number specified as such in the related Confirmation.

(c) "Maximum Number of Options" means, in respect of a Government Bond Option Transaction to which Multiple Exercise is applicable, the number of Options remaining unexercised, unless otherwise specified in the related Confirmation. For the avoidance of doubt, the Maximum Number of Options may never be less than the Minimum Number of Options,

**Section 4.5. Limited Right to Confirm Exercise.** (a) If "Limited Right to Confirm Exercise" is specified to be applicable to a Government Bond Option Transaction, it means that:

(i) If an Option which would otherwise have been exercisable has not been exercised, Seller may, immediately prior to, at or after the Expiration Time on the Expiration Date, request (orally (including by telephone) or in writing) Buyer to confirm its intent to exercise the Option. Buyer will reply immediately to any such request.

(ii) If "Physical" or "Physical Settlement" is specified in the related Confirmation and Buyer confirms its intent to exercise at or before the Expiration Time on the Expiration Date, then Physical Settlement will apply. If Buyer confirms its intent to exercise after the Expiration Time on the Expiration Date or if Seller has made no request and Buyer notifies Seller of its intent to exercise after the Expiration Time on the Expiration Date but not later than 10 Seller Business Days after the Expiration Date, then the Option will be deemed to have been exercised at the Expiration Time on the Expiration Date and, in such case, Cash Settlement will be deemed to apply in accordance with Section 7.1 in respect of such Option, notwithstanding that Physical Settlement would otherwise have been applicable. In such circumstances, notwithstanding Section 7.2(c), Seller shall determine the Spot Price in good faith and, notwithstanding Section 5.3, Seller's determination will be binding in the absence of manifest error.

(iii) Otherwise, the Option will be deemed to have expired unexercised.

(b) If both Limited Right to Confirm Exercise and Automatic Exercise are specified to be applicable to a Government Bond Option Transaction, then:

(i) Limited Right to Confirm Exercise will not apply to any Option that has been deemed to be automatically exercised pursuant to Section 4.6; but

(ii) Limited Right to Confirm Exercise will apply to any Option that has not been deemed to be automatically exercised pursuant to Section 4.6.

**Section 4.6. Automatic Exercise.** If "Automatic Exercise" is specified to be applicable to a Government Bond Option Transaction, then, subject to Section 4.4(a) in the event that Multiple Exercise is applicable and the number of Options remaining unexercised on the Expiration Date is less than the Minimum Number of Options or greater than the Maximum Number of Options, each Option not previously exercised under that Government Bond Option Transaction will be deemed to be automatically exercised:

(a) where Cash Settlement is applicable, at the Expiration Time on the Expiration Date unless Buyer notifies Seller or, if designated, Seller's Agent (orally (including by telephone) or in writing) prior to the Expiration Time on the Expiration Date that it does not wish Automatic Exercise to occur; and

§ 4.6(b)

(b) where Physical Settlement is applicable, at the Expiration Time on the Expiration Date if at such time the Option is In-the-Money, as determined by the Calculation Agent, unless:

(i) Buyer notifies Seller or, if designated, Seller's Agent (orally (including by telephone) or in writing) prior to the Expiration Time on the Expiration Date that it does not wish Automatic Exercise to occur; or

(ii) the Reference Price necessary to determine that the Option is In-the-Money cannot be determined at the Expiration Time on the Expiration Date,

in which case Automatic Exercise will not apply.

(c) "In-the-Money" means, in respect of a Government Bond Option Transaction to which Physical Settlement is applicable, in the case of a Call, that the Reference Price is equal to or greater than 101 percent of the Strike Price and, in the case of a Put, that the Reference Price is less than or equal to 99 percent of the Strike Price.

(d) "Reference Price" means, in respect of a Government Bond Option Transaction to which Physical Settlement is applicable, the price determined as provided in the related Confirmation at the Expiration Time on the Expiration Date or, if no means of determining such price is so provided, the Spot Price as of the Expiration Time on the Expiration Date as determined by Seller in good faith (and promptly notified to the Calculation Agent),

(e) If Automatic Exercise is specified to be applicable to a Government Bond Option Transaction, then, subject to Section 4.5 where Limited Right to Confirm Exercise is specified to be applicable, Section 4.2 will apply to the Government Bond Option Transaction unless and until an Option is deemed to have been automatically exercised.

## ARTICLE 5

### GENERAL TERMS AND PROVISIONS RELATING TO SETTLEMENT

#### **Section 5.1. Certain General Definitions Relating to Settlement of a Government Bond Option Transaction.**

(a) **Cash Settlement.** If "Cash" or "Cash Settlement" is specified, it means that "Cash Settlement" is applicable to the Government Bond Option Transaction and that Seller grants to Buyer pursuant to the Government Bond Option Transaction the right to cause Seller to pay Buyer the Cash Settlement Amount, if any, on the Settlement Date in accordance with Section 7.1.

(b) **Physical Settlement.** If "Physical" or "Physical Settlement" is specified, it means that, subject to Section 4.5, "Physical Settlement" is applicable to the Government Bond Option Transaction and that Seller grants to Buyer the right to the Physical Settlement Entitlement.

(c) **Physical Settlement Entitlement.** "Physical Settlement Entitlement" means:

(i) in the case of a Call, the right (but not the obligation) to purchase from Seller the Bonds at the Strike Price; and

(ii) in the case of a Put, the right (but not the obligation) to sell to Seller the Bonds at the Strike Price,

in each case pursuant to Section 6.1.

(d) **Settlement Date.** "Settlement Date" means, in respect of an Exercise Date, the date specified as such or otherwise determined as provided in the related Confirmation, subject to adjustment: (i) in accordance with the Following Business Day Convention unless another Business Day Convention is specified to be applicable to the Settlement Date or Settlement Dates in respect of that Government Bond Option Transaction; (ii) if Physical Settlement applies, for a Settlement Disruption Event; and (iii) if an Option is deemed to have been exercised pursuant to Section 4.5, in accordance with the determination of Seller in good faith based upon then prevailing market practice.

**Section 5.2. Conversion.** If the issuer of the Bonds irreversibly converts those Bonds into other securities, a Government Bond Option Transaction will, unless otherwise specified in the related Confirmation, continue as set forth in the related Confirmation except that (a) the "Bonds" will mean such other securities and (b) the Calculation Agent will adjust the strike Price, the Number of Options and/or the Option Entitlement as the Calculation Agent determines appropriate to preserve the theoretical value of that Government Bond Option Transaction to the parties immediately prior to such conversion.

**Section 5.3. Dispute Resolution.** If a party objects to a determination by the Calculation Agent for any Government Bond Option Transaction of the Spot Price (other than a Spot Price determined by Seller pursuant to Section 4.5, in which event this Section 5.3 does not apply) or an adjustment in respect of a conversion of the Bonds within two Exchange Business Days of notice of that determination, then Buyer and Seller will negotiate in good faith to agree on an independent third party that will determine the Spot Price or that adjustment, as the case may be, and, if they cannot so agree within three Exchange Business Days, each of Buyer and Seller will promptly choose an independent third party and instruct the parties so chosen to agree on another independent third party that will determine the Spot Price or that adjustment, as the case may be. Any determination pursuant to this Section by an independent third party will be binding in the absence of manifest error. The costs of any independent third party called upon to make such a determination will be borne equally by Buyer and Seller.

## ARTICLE 6

### PHYSICAL SETTLEMENT

**Section 6.1. Physical Settlement.** In respect of each Exercise Date under a Government Bond Option Transaction to which Physical Settlement is applicable, subject to any applicable condition precedent, (a) in the case of a Call, Buyer will pay to Seller the Bond Payment and Seller will deliver to Buyer the Bonds to be Delivered and (b) in the case of a Put, Buyer will deliver to Seller the Bonds to be Delivered and Seller will pay to Buyer the Bond Payment. Such payment and such delivery will be made on the relevant Settlement Date through the relevant Clearance System at the accounts specified in the related Confirmation on a delivery versus payment basis (unless the parties specify otherwise).

**Section 6.2. Settlement Disruption Event.** (a) "Settlement Disruption Event" in relation to a Bond means an event beyond the control of the parties as a result of which the Clearance System cannot clear the transfer of such Bond.

(b) If, in respect of any Government Bond Option Transaction to which Physical Settlement is applicable, there is a Settlement Disruption Event that prevents delivery of the Bonds on a day that but for the occurrence of that Settlement Disruption Event would have been the Settlement Date, then the Settlement Date will be the first succeeding day on which delivery of the Bonds can take place through the relevant Clearance System, unless a Settlement Disruption Event prevents settlement on each day that the Clearance System is (or, but for the Settlement Disruption Event, would have been) open for business during the period ending 30 calendar days after the original date that, but for the Settlement Disruption Event, would have been the Settlement Date. If the Settlement Date does not occur during such 30 calendar day period, the party required under that Government Bond Option Transaction to deliver the Bonds will use best efforts to deliver the Bonds to be Delivered promptly thereafter in a commercially reasonable manner outside the Clearance System on a delivery versus payment basis.

### **Section 6.3. Certain General Definitions Relating to Physical Settlement.**

(a) **Bonds to be Delivered.** "Bonds to be Delivered" means, in respect of an Exercise Date under a Government Bond Option Transaction, the Bonds in a nominal amount equal to the number of Options exercised or deemed exercised on that Exercise Date multiplied by the Option Entitlement.

(b) **Bond Payment.** "Bond Payment" means, in respect of a Government Bond Option Transaction,

(i) if the Strike Price is stated as an amount in the relevant currency, an amount equal to the product of: (A) the sum of (1) the Strike Price plus (2) accrued interest, if any, on the Option Entitlement computed in accordance with customary trade practices employed with respect to the Bonds; and (B) the number of Options exercised or deemed exercised on the relevant Exercise Date;

(ii) if the Strike Price is stated as a percentage of the nominal value of the Bonds (e.g., 103 percent of par), an amount equal to the product of: (A) the sum of (1) the Strike Price multiplied by the Option Entitlement plus (2) accrued interest, if any, on the Option Entitlement

computed in accordance with customary trade practices employed with respect to the Bonds; and (B) the number of Options exercised or deemed exercised on the relevant Exercise Date; and

(iii) if the Strike Price is stated as a yield, an amount determined by a method specified in or pursuant to the related Confirmation.

(c) **Clearance System.** "Clearance System" means, in respect of a Government Bond Option Transaction, the system specified as such in the related Confirmation (including any successor to that system).

(d) **Split Ticket Delivery.** If "Split Ticket Delivery" is specified or deemed to be applicable to a Government Bond Option Transaction, it means that the party required to deliver the Bonds may, after notice of its intentions to the other party, divide the Bonds to be Delivered into such number of lots of such size as the notifying party desires to facilitate its delivery obligations. Unless the parties specify otherwise, Split Ticket Delivery will be deemed to apply to any Government Bond Option Transaction to which Physical Settlement is applicable.

**Section 6.4. Failure to Deliver and Buy-in Procedures.** (a) Failure by a party to deliver, when due, the Bonds to be Delivered under a Government Bond Option Transaction will constitute an Event of Default (as defined in the ISDA Master Agreement) only if on or before the third Local Business Day after notice of the failure is given to the party it does not (i) remedy such failure or (ii) provide such security or such other assurances to the other party as that other party, acting in good faith but in its sole discretion, deems adequate. If Split Ticket Delivery is applicable to a Government Bond Option Transaction, the failure to deliver will only occur in respect and to the extent of those lots of Bonds to be Delivered which remain undelivered.

(b) In addition to any requirement that a party provide security or assurances as a result of its failure to deliver the Bonds to be Delivered under a Government Bond Option Transaction, the other party may at any time, and not later than 45 calendar days after such failure (absent an Event of Default) will endeavour to, exercise a right to close out the Government Bond Option Transaction by the purchase of such Bonds (a "buy-in"). The party exercising the buy-in will give two Local Business Days' written notice of its intention to buy-in. On the day of the buy-in, the party exercising the buy-in will send written notice of the quantity of the Bonds purchased and the price contracted. The buy-in settlement will be settled without any delay and, in any event, not later than five Exchange Business Days following the date of the buy-in.

(c) In the event that a party's failure to deliver is due to the non-existence of the Bonds to be Delivered or the other party is unable to exercise a buy-in, the Government Bond Option Transaction will be terminated in accordance with any applicable provisions set forth in the ISDA Master Agreement or the relevant Confirmation: (i) as if the failure to deliver constituted a Termination Event under the ISDA Master Agreement; (ii) as if the party that failed to deliver were the sole Affected Party; (iii) as if the other party had the right to terminate under Section 6(b)(iv) of the ISDA Master Agreement; (iv) as if the relevant Government Bond Option Transaction (after consideration of any partial delivery) were the sole Affected Transaction, or, in the case of an American style Government Bond Option Transaction to which Multiple Exercise is applicable, if less than all Options have been exercised (or deemed exercised) on the

relevant Exercise Date, a Government Bond Option Transaction (after consideration of any partial delivery) consisting of the exercised Options only were the sole Affected Transaction; and (iv) irrespective of the payment measure elected by the parties under the ISDA Master Agreement, Loss will be deemed to apply for the purpose of determining any payment to be made in respect of the Affected Transaction.

(d) "ISDA Master Agreement" means, for purposes of this Section 6.4, the Agreement, if any, referred to in the related Confirmation and otherwise the standard form 1992 ISDA Master Agreement (Multicurrency-Cross Border) published by the International Swaps and Derivatives Association, Inc., and the terms "Event of Default", "Termination Event", "Affected Transaction" and "Loss" have the respective meanings provided for in the ISDA Master Agreement.

(e) "Local Business Day" means any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the city specified in the address for notice provided by the recipient.

**Section 6.5. Representation and Agreement.** In respect of an exercise or deemed exercise of an Option under a Government Bond Option Transaction to which Physical Settlement is applicable and pursuant to which a party is required to deliver the Bonds, that party agrees that it will convey, and, on the date that it delivers such Bonds, represents that it has conveyed, good title to the Bonds to be Delivered, free and clear of any lien, charge, claim or other encumbrance (other than a lien routinely imposed on all securities in the relevant Clearance System).

## ARTICLE 7

### CASH SETTLEMENT

**Section 7.1. Cash Settlement.** In respect of each Exercise Date under a Government Bond Option Transaction to which Cash Settlement is applicable or is deemed to be applicable, Seller will pay to Buyer, subject to any applicable condition precedent, the Cash Settlement Amount, if any, on the relevant Settlement Date for all Options exercised or deemed exercised on that Exercise Date.

#### **Section 7.2. Certain General Definitions Relating to Cash Settlement.**

(a) **Cash Settlement Amount.** "Cash Settlement Amount" means, in respect of a Government Bond Option Transaction, an amount, as calculated by the Calculation Agent, equal to the number of Options exercised or deemed exercised on the relevant Exercise Date multiplied by the Strike Price Differential.

(b) **Strike Price Differential.** "Strike Price Differential" means, in respect of an Option,

(i) if the Strike Price is stated as an amount in the relevant currency, an amount equal to (A) if the Government Bond Option Transaction is a Put, the greater of (1) the excess of the Strike Price over the Spot Price and (2) zero and (B) if the Government Bond Option Transaction is a Call, the greater of (1) the excess of the Spot Price over the Strike Price and (2) zero;

(ii) if the Strike Price is stated as a percentage of the nominal value of the Bonds (e.g., 103 percent of par), an amount equal to (A) if the Government Bond Option Transaction is a Put, the greater of (1) the excess of the Strike Price multiplied by the Option Entitlement over the Spot Price multiplied by the Option Entitlement and (2) zero and (B) if the Government Bond Option Transaction is a Call, the greater of (1) the excess of the Spot Price multiplied by the Option Entitlement over the Strike Price multiplied by the Option Entitlement and (2) zero; and

(iii) if the Strike Price is stated as a yield, an amount determined by a method specified in or pursuant to the related Confirmation.

(c) **Spot Price.** "Spot Price" means, in respect of a Government Bond Option Transaction:

(i) if the Strike Price is stated as an amount in the relevant currency, the price for the Bonds equal in amount to the Option Entitlement stated as an amount in the relevant currency; and

(ii) if the Strike Price is stated as a percentage of the nominal value of the Bonds (e.g., 102 percent), the price of the Bonds stated as a percentage of their nominal value,

in each case, as of the Valuation Time on the relevant Exercise Date (or, if that date is not an Exchange Business Day, the next following Exchange Business Day) as determined by the Calculation Agent.

(d) **Valuation Time.** "Valuation Time" means, in respect of a Government Bond Option Transaction, the time specified as such in the related Confirmation.

**Section 7.3. Corrections to Published Prices.** For purposes of determining the Spot Price for any day, if the price published or announced on a given day and used or to be used by the Calculation Agent or Seller to determine a Spot Price is subsequently corrected and the correction is published or announced by the person responsible for that publication or announcement within 30 calendar days of the original publication or announcement, either party may notify the other party of (i) that correction and (ii) the amount (if any) that is payable as a result of that correction. If, not later than 30 calendar days after publication or announcement of that correction, a party gives notice that an amount is so payable, the party that originally either received or retained such amount will, not later than three Business Days after the effectiveness of that notice, pay, subject to any applicable conditions precedent, to the other party that amount, together with interest on that amount (at a rate per annum that the Calculation Agent determines to be the spot offered rate for deposits in the payment currency in the London interbank market as at approximately 11:00 a.m., London time, or, if spot rates for deposits in such payment currency are not offered in the London interbank market, at a rate per annum that the Calculation Agent determines to be the spot offered rate for deposits in the payment currency in the interbank market for such payment currency as at approximately the time the spot offered rate is fixed for such payment currency, on the relevant Settlement Date) for the period from and including the day on which a payment originally was (or was not) made to but excluding the day of payment of the refund or payment resulting from that correction.

**ARTICLE 8**

**ROUNDING**

**Section 8.1. Rounding.** For purposes of any calculations referred to in these Definitions (unless otherwise specified) only the Cash Settlement Amount and the Bond Payment will be rounded, so that (a) U.S. Dollar amounts will be rounded to the nearest cent (with one half cent being rounded up), (b) all Yen amounts will be rounded downwards to the next lower whole Yen amount, (c) all Greek Drachma, Italian Lira and Spanish Peseta amounts will be rounded to the nearest Greek Drachma, Italian Lira or Spanish Peseta (with one half Greek Drachma, Italian Lira or Spanish Peseta being rounded up) and (d) all amounts denominated in any other currency will be rounded to the nearest two decimal places in such currency, with .005 being rounded upwards (e.g., .674 being rounded down to .67 and .675 being rounded up to .68).

**Letter Agreement or Telex Confirming a Government Bond Option Transaction**

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*Heading for Letter<sup>1</sup>*

[Letterhead of Party A]

[Date]

**Government Bond Option Transaction**

[Name and Address of Party B]

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*Heading for Telex<sup>1</sup>*

**Date:**

**To:** [Name and Telex Number of Party B]

**From:** [Party A]

**Re:** Government Bond Option Transaction

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Dear :

The purpose of this [letter agreement/telex] (this "Confirmation") is to confirm the terms and conditions of the Government Bond Option Transaction entered into between us on the Trade Date specified below.

The definitions and provisions contained in the 1997 ISDA Government Bond Option Definitions, as published by the International Swaps and Derivatives Association, Inc., are incorporated into this Confirmation. In the event of any inconsistency between those definitions and provisions and this Confirmation, this Confirmation will govern.

This Confirmation constitutes a "Confirmation" as referred to in, and supplements, forms 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 [Name of Party A] ("Party A") and [Name of Party B] ("Party B"). All provisions contained in the Agreement govern this Confirmation except as expressly modified below.<sup>2</sup>

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<sup>1</sup> Include if applicable.

<sup>2</sup> If the parties have not yet executed, but intend to execute, an ISDA Master Agreement include, instead of this paragraph, the following: "This Confirmation evidences a complete and binding agreement between you and us as to the terms of the Government Bond Option Transaction to which this Confirmation relates. In addition, you and we agree to use all reasonable efforts promptly to negotiate, execute and deliver an agreement in the form of the ISDA Master Agreement (Multicurrency-Cross Border) (the "ISDA Form"), with such modifications as you and we will in good faith agree. Upon the execution by you and us of such an agreement, this Confirmation will supplement, form part of, and be subject to, that agreement. All provisions contained in or incorporated by reference in that agreement upon its execution will govern this Confirmation except as expressly modified below. Until we execute and deliver that agreement, this Confirmation, together with all other documents referring to the ISDA Form (each a "Confirmation") confirming transactions (each a "Transaction") entered into between us (notwithstanding anything to the contrary in a Confirmation), shall supplement, form part of, and be subject to, an agreement in the form of the ISDA Form as if we had executed an agreement in such form (but without any Schedule except for the election of [English law][the laws of the State of New York] as the governing law and [specify currency] as the Termination Currency) on the Trade Date of the first such Transaction between us. In the event of any inconsistency between the provisions of that agreement and this Confirmation, this Confirmation will prevail for the purpose of this Government Bond Option Transaction."

The terms of the Government Bond Option Transaction to which this Confirmation relates are as follows:

1. General Terms

Trade Date:	[ ]
Option Style:	[American][European]
Option Type:	[Call][Put]
Seller:	[Party A][Party B]
Buyer:	[Party A][Party B]
Bonds:	[ ]
Number of Options:	[ ]
Option Entitlement:	[ ] of nominal amount of the Bonds per Option.
Strike Price:	[ ] <sup>3</sup>
[Premium per Option:]	[ ]
Premium:	[ ]
Premium Payment Date:	[ ]
[Business Day Convention for Premium Payment Date:]	[ ]
[Business Days:]	[ ]
[Seller Business Day:]	[ ]
Exchange:	[ ]
Calculation Agent:	[ ] <sup>4</sup>

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<sup>3</sup> This may be stated as an amount computed by reference to a holding equal in amount to the Option Entitlement or as a percentage of nominal value.

<sup>4</sup> If the Calculation Agent is a third party, the parties will want to consider any documentation necessary to confirm its undertaking.

2. Procedure for Exercise:

[Commencement Date:] [ ]<sup>5</sup>

Expiration Date: [ ]

[Latest Exercise Time:] [ ]<sup>6</sup>

Expiration Time: [ ]

[Partial Exercise:] [Applicable][Inapplicable]<sup>7</sup>

[Multiple Exercise:] [Applicable][Inapplicable]<sup>8</sup>

[Minimum Number of Options:] [ ]<sup>9</sup>

[Maximum Number of Options:] [ ]<sup>10</sup>

[Integral Multiple:] [ ]

Written Confirmation of Exercise: [Applicable][Inapplicable]<sup>11</sup>

Limited Right to Confirm Exercise: [Applicable][Inapplicable]<sup>12</sup>

[Automatic Exercise:] [Applicable][Inapplicable]<sup>12</sup>

Contact Details for Purpose of Giving Notice: Seller['s Agent].<sup>13</sup>

Buyer:

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5 Include if American style option and the Commencement Date is not the Trade Date.

6 Include if American style option and the Latest Exercise Time is not the Expiration Time.

7 Exclude if American style option.

8 Exclude if European style option.

9 Include if American style option to which Multiple Exercise is applicable. If a Minimum Number of Options is specified and, at any time, the number of unexercised Options is less than the specified number, those Options will not be capable of being exercised.

10 Include if American style option to which Multiple Exercise is applicable unless the Maximum Number of Options is to equal the number of unexercised Options.

11 Written notice of exercise is presumed to be required unless the parties specify otherwise.

12 For priority of treatment where parties have specified both Automatic Exercise and Limited Right to Confirm Exercise to be applicable, see Sections 4.5 and 4.6.

13 Include if an agent is designated by Seller for the purpose of receiving notice of exercise.

[Reference Price:] [ ]

3. Settlement Terms:

Settlement: [Cash][Physical]

Settlement Date: [ ] days after the relevant Exercise Date.

[Business Day Convention for Settlement Date:] [ ]

[Split Tickets:] [Applicable][Inapplicable]<sup>14</sup>

[Clearance System:] [ ]<sup>14</sup>

[Valuation Time:] [ ]<sup>15</sup>

4. Account Details:

Account(s) for payments and/or deliveries to Seller:

Account(s) for payments and/or deliveries to Buyer:

[5. agrees to provide the following Credit Support Document [or agrees to provide the following in accordance with [specify Credit Support Document]]:]

[6. Offices:

(a) The Office of Party A for the Government Bond Option Transaction is ; and

(b) The Office of Party B for the Government Bond Option Transaction is .]

[7. Broker/Arranger:]

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<sup>14</sup> Exclude if Cash Settlement is specified to be applicable.

<sup>15</sup> Include if either Cash Settlement or Limited Right to Confirm is specified to be applicable.

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*Closing for Letter*<sup>16</sup>

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

Yours sincerely,

[PARTY A]

By: \_\_\_\_\_  
Name:  
Title:

Confirmed as of the  
date first above written:

[PARTY B]

By: \_\_\_\_\_  
Name:  
Title:

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*Closing for Telex*<sup>16</sup>

Please confirm that the foregoing correctly sets forth the terms of our agreement by sending to us a letter or telex substantially similar to this telex, which letter or telex sets forth the material terms of the Government Bond Option Transaction to which this Confirmation relates and indicates agreement to those terms, or by sending to us a return telex substantially to the following effect:

"Re:

We acknowledge receipt of your telex dated [ ] with respect to the above-referenced Government Bond Option Transaction between [Party A] and [Party B] with a Trade Date of [ ] (reference number [ ]) and an Expiration Date of [ ] and confirm that such telex correctly sets forth the terms of our agreement relating to the Transaction described therein. Very truly yours, [Party B], by [specify name and title of authorized officer]."

Yours sincerely,

[PARTY A]

By: \_\_\_\_\_  
Name:  
Title:

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<sup>16</sup> Include if applicable.

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