
A RETROSPECTIVE OF ISDA'S ACTIVITIES 2006 - 2007

ISDA®

International Swaps and Derivatives Association, Inc.

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Letter from the Executive Director

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Dear ISDA Member:

The privately negotiated derivatives industry continues to be the most dynamic, innovative and fastest-growing sector of the financial markets – and ISDA continues to play an important, leading role in its growth, evolution and success.

Today, ISDA ranks as the world's largest global financial trade association, with 780 members headquartered in 54 countries on six continents. Over 100 firms joined ISDA in 2006 alone. Our members include the world's major financial institutions, as well as many businesses, investment firms, governmental entities and other end users who rely on OTC derivatives to manage the financial market risks inherent to their core economic activities.

ISDA's mission is to foster the prudent and efficient development of our business, and our accomplishments and activities during 2006 speak to the energy and focus we bring to this work. In the following pages, I'm pleased to highlight for you key developments over the past year.

Credit Derivatives

As ISDA's Mid-Year Market Survey highlighted, credit derivatives represent the fastest growing segment of the OTC derivatives industry, with notional outstanding growing in just six months by 52% to \$26.0 trillion at June 30th.

In 2006, ISDA reinforced its commitment to improving operational efficiencies within the credit derivatives arena. More than 260 of the world's major derivatives dealers and organizations have signed on to ISDA's Novation Protocol II. Improvements introduced by the 2005 Novation Protocol and the current protocol have been instrumental in significantly reducing the backlog of outstanding credit derivatives confirmations, which decreased 94% from September 2005.

Along with the Protocol, our highly successful CDS protocols, created for the Calpine, Dana and Dura bankruptcies, effectively facilitate cash settlement of credit derivatives and continue the important work of streamlining operational efficiencies. The 2006 Dura Protocol is our first protocol to permit the cash settlement of single-name, index, tranche and other credit derivatives transactions. Previous ad hoc protocols only enabled cash settlement of index trades.

Additionally, ISDA published a series of credit derivative templates, including one detailing a recovery lock credit default swap that permits market participants to take a view on where debt of a defaulting Reference Entity will trade.

To increase efficiency, reduce risk and support the growth of the synthetic asset backed securities industry, ISDA undertook a number of initiatives. We published two revised versions of the CDS on ABS Cash or Physical template originally published in 2005, adding a variant to permit an alternative total return swap valuation mechanic.

We also published a CDS on CDO template to facilitate trading in cash flow CDOs. We anticipate developing a Standard Terms Supplement approach for CMBS, RMBS, CDO and other asset categories in order for confirmations to be more streamlined in their execution through DTCC and other services.

As leveraged loans are estimated to be one-third of the U.S. syndicated loan market, we anticipate that our Syndicated Secured Loan Only CDS template will contribute to greater liquidity in this product. The template is designed to permit investors to take short or long credit positions or a combination of those strategies.

Documentation and Netting

In addition to our work in credit derivatives, we had another productive year in the area of documentation, publishing a number of important documents relating to other sectors of the privately negotiated derivatives industry.

To accommodate the rapid growth of derivatives transactions linked to interests in various types of pooled investment vehicles, such as hedge funds and mutual funds, ISDA published the 2006 ISDA Fund Derivatives Definitions. And to facilitate the documentation of inflation derivatives transactions under the ISDA Master Agreement, we published the 2006 ISDA Inflation Derivatives Definitions, which were translated into French for educational purposes.

While ISDA generally seeks to establish one global approach on certain key provisions, regional trading and hedging strategies must also be considered. In the U.S., ISDA revised the 2004 Americas Interdealer Master Equity Derivatives Confirmation Agreement to include forward starting variance swaps. In Europe, we continued to work on the 2006 European Variance Swap Master Confirmation Agreement for use among various types of counterparties that are not solely in the interdealer market.

In the energy area, we published two new versions of the EU Emissions Allowance Transaction document intended for use in privately negotiated, physically settled transactions in European Union emissions allowances. These two documents are part of our effort to harmonize documentation approaches with other associations.

In 2006, ISDA also completed the Convertible Asset Swap Transaction template and the Convertible Asset Option Transaction template for use in interdealer convertible asset swap and option transactions.

During the year, the Association continued to expand the number of jurisdictions in which legal opinions on the enforceability of netting provisions of the ISDA Master Agreements are obtained. This year, we published new netting opinions for Malta and Slovakia. In addition, the Association recently commissioned new netting opinions for Israel and Anguilla. In addition, we published a revised original collateral opinion for Taiwan and are also finalizing a new Hungarian collateral opinion.

Operations & Technology

The results of this year's Operations Benchmarking Survey were of particular interest because of increased attention to operational issues from the industry and policy makers.

Confirmation backlogs, as mentioned, decreased significantly for credit derivatives, reflecting the increased industry and regulatory attention. Given the current focus on credit default swap backlogs, next year's results should reflect further improvement.

The September 2006 Federal Reserve Bank of New York meeting expanded the industry focus to equity derivatives. ISDA has been at the center of providing solutions to the issues addressed at that meeting.

We continued enhancements to our FpML standard this year, publishing a Trial Recommendation for version 4.2. This new version includes enhancements in several asset classes, including buy-side specific requirements. ISDA expanded the coverage of credit derivatives by adding CDS baskets and support for index tranches. The most significant addition is in the area of business processes with the introduction of Cash Flow Matching coverage.

To facilitate the use and adoption of FpML 4, we also published the 2006 Edition User's Guide, which provides guidance about how FpML may be used to address the application needs of derivative market participants.

In June, ISDA and SWIFT announced a collaboration to increase operational efficiency in the rapidly growing privately negotiated derivatives market. This partnership will leverage the benefits of the Financial products Markup Language (FpML) standard and the SWIFT network by transporting FpML messaging over SWIFTNet. The collaboration will further expand the use of FpML, particularly by end-users of derivatives.

Derivatives Users Committee

The ISDA Derivatives Users Committee was formed in 2006. The mission of the committee is to provide a forum for non-dealer firms, represented by the ISDA subscriber membership category that are active in privately negotiated derivatives as clients, investment managers or managed funds.

The Derivatives Users Committee is a means to provide input and stay updated on the work done in various other groups and to identify and deal with user-specific issues where appropriate.

Collateral

The use of collateral in privately negotiated derivatives transactions and related margined activities continued to grow significantly in 2006. ISDA's Margin Survey estimated that the amount of collateral in circulation was \$1.33 trillion, which highlighted a 10% increase over the collateral reported in 2005. Respondents to the Margin Survey reported over 109,733 collateral agreements in place, compared with 70,892 in the 2005 Survey.

In the area of collateral law reform, ISDA submitted comments to the European Commission regarding the current evaluation of the implementation of the EU Collateral Directive. Our remarks focused on the widening of the scope of eligible counterparties, the types of eligible collateral and the expansion of the benefits of closeout netting.

ISDA has been involved in the drafting process of the Hague Securities Convention since its onset. The Convention provides conflict of law rules regarding the law applicable to intermediated securities held as collateral. In the meantime, both Switzerland and the US have signed this Convention. The EU and its member states plus Japan and Latin American countries are currently discussing when to sign this Convention as well. The US is expected to proceed to ratification by the Senate in 2007.

Risk Management

In 2006, ISDA participated in extensive discussions with various trade associations on risk management practices. For example, ISDA, the British Bankers' Association and the London Investment Banking Association jointly submitted comments to the UK FSA on the consultation paper and draft rulebook implementing the Capital Requirements Directive in the UK. The FSA adopted a copy-out approach to reduce the scope for divergence of interpretation between the UK regulations and the Directive and to encourage consistency of implementation across EU jurisdictions. We also published a joint trade association report on concentration risk and the management of large exposures.

ISDA continued its work with the Basel Committee's Accord Implementation Group on the roll out of the Internal Ratings-Based "use test," designed to support banks and supervisors in their interpretation of the Basel II framework.

We also teamed up with the International Association of Credit Portfolio Managers to publish a credit capital model study that advises regulators to consider an internal models-based approach for the calculation of regulatory capital.

Public Policy

Throughout the year, ISDA was involved in a broad range of public policy issues that affect privately negotiated

derivatives. Our actions continued to strengthen our mission to encourage the prudent and efficient development of the OTC derivatives business.

ISDA engaged in a detailed critique of recent UK FSA proposals on Best Execution requirements, particularly as they pertain to dealer markets. Working with other interested trade associations, we submitted a thorough response to a discussion paper that sought to open a debate on the best implementation of the high-level requirements contained in Article 21 of the Market in Financial Instruments Directive. The MiFID is due to take effect in November 2007. ISDA also attended a FSA workshop designed primarily to allow firms to give evidence of why they oppose the benchmarking proposals for dealer markets contained in another FSA discussion paper.

ISDA believes that when there is no market failure, a “best-price” mechanism such as benchmarking will not only prove to be expensive, but will potentially have adverse effects on liquidity in the risk management markets that are essential to the financial markets and the wider economy.

Accounting

ISDA expressed its concerns to the International Accounting Standards Board (IASB) about possible delays to the Fair Value Measurement project and the possibility for divergence between U.S. GAAP and IAS 39. The IASB recently announced that there would be no new major standards effective before 2009, which reverses IASB’s 2005 decision.

In addition, the U.S. Financial Accounting Standard’s Board (FASB) published FAS 157, which addresses how companies could measure fair value under U.S. GAAP. Progress has also been made in Europe on the issue of “equivalency” of non-EU GAAPs under the new Transparency and Prospectus Directives.

In 2006, ISDA and the Bond Market Association (TBMA, now SIFMA) commented on the Government Accounting Standards Board’s (GASB’s) preliminary views on accounting and disclosure of derivatives and hedging activities by governmental entities. We highlighted the importance of issuing standards that improve the usefulness of financial reports, as well as the need to balance costs with the benefits of new standards.

Emerging Markets

During the year, ISDA utilized the 2006 Model Netting Act in a number of jurisdictions to encourage insolvency law reform. The new Act incorporates many of the recent improvements in insolvency law from various jurisdictions globally, including the United States.

The Act is designed to be a legislative aid to assist jurisdictions interested in developing their own revised insolvency laws, such as Anguilla, Argentina, Costa Rica, Chile, the Marshall Islands, Mauritius, Peru and Russia. In addition to these efforts, our Central & Eastern Europe Committee met in late September to discuss the legal landscape for OTC derivatives transactions in Kazakhstan. ISDA and the International Islamic Financial Market also signed a memorandum of understanding as a basis for developing a master agreement to document privately negotiated Shariah compliant derivatives transactions.

Asia-Pacific

As the transaction volumes in the privately negotiated derivatives market in China continue to increase, ISDA remains committed to working with public policymakers and market practitioners to further encourage the efficient development of the business in the region. We published a Chinese/English language glossary of commonly used terms in the collateral market to assist dialogue and educational efforts with new counterparties based in the region. ISDA also met with several Chinese regulatory authorities this year.

A meeting with the People’s Bank of China focused primarily on strengthening the support for close-out netting. At a meeting with representatives of the China Banking Regulatory Commission and the Chinese Securities Regulatory Commission, we discussed the possible impact of the new bankruptcy legislation in China.

To better address the specific needs and market practices of the Asia-Pacific region, ISDA's Asia (ex-Japan) Variance Working Group is in the process of drafting the 2006 AEJ Master Variance Swap Confirmation Agreement to supplement the 2005 AEJ Interdealer Master Equity Derivatives Confirmation Agreement.

ISDA provided input to Malaysian authorities on how to remedy some of the constraints on closeout netting caused by the Malaysia Deposit Insurance Corporations Act 2005 and the Pengurusan Danaharta Nasional Berhad Act 1998.

In India, legislation was enacted that will strengthen certain aspects related to the enforceability of close-out netting.

Japan

Following months of dialogue with the Financial Services Agency of Japan (JFSA) about Japan's Basel II Implementation Plan, the JFSA published the official guidelines for Basel II implementation. In 2006, we also published the Japan Interdealer Master Variance Swap Confirmation Agreement, which facilitates the trading of Japanese index variances. Currently ISDA is engaged in reviewing regulations under the Japanese Financial Instruments and Exchange Law.

Conferences

2006 was another impressive year for ISDA conferences. Our Annual General Meeting in Singapore, which featured key public policy and industry figures from Asia-Pacific and around the globe, was well attended. We hope to have the same turnout at our 2007 AGM in Boston, Massachusetts in April. In addition, ISDA continued to enjoy a strong turnout at our 2006 Regional Member Conferences in London, New York, Sydney and Tokyo. In all, we held 82 conferences, symposiums and training courses throughout 2006 on subjects that ranged from risk management and new types and uses of derivatives to the latest developments across the industry.

New staff

Throughout 2006, we added new members to our team. Their leadership and expertise has strengthened ISDA's mission to encourage the prudent and efficient development of our business. At our AGM in March, we welcomed Gregory Zerzan as our new Counsel and Head of Global Public Policy. Mr. Zerzan, who now also chairs ISDA's U.S. Regulatory Committee, is based in our Washington D.C. office and directs ISDA's public policy strategies and initiatives on a global basis.

Later in the year, David Geen joined ISDA as European General Counsel. Mr. Geen, who will be based in our London office, will play a key role in a wide range of ISDA's global legal and documentation activities.

Looking Ahead

ISDA's growth reflects the strong dynamics of the privately negotiated derivatives business and our impact in encouraging the prudent and efficient development of that business. As we move into 2007, we have plans to deliver even more for the industry, building on our established expertise and our global presence.

We thank you for your support and dedication throughout the year and we encourage all of our members to maintain the same level of involvement as we continue to work to fulfill our mission in the year ahead.

Sincerely,



Robert Pickel
Executive Director and Chief Executive Officer

ISDA Board of Directors

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The past year has been significant for ISDA's growth and development. The association has grown in terms of its reach, its focus, its membership and its staff, and has plans for even greater expansion in the coming year.

All this of course is against the backdrop of continuing growth in the industry itself. Credit derivatives increased by 109 percent to \$26.0 trillion from mid-year 2005 to mid-year 2006. Equity derivatives grew 32 percent in that time to \$6.4 trillion. And the annual growth rate for interest rate derivatives, the most mature of the OTC derivative product sets, was 25 percent to mid-2006. Outstanding notional volumes in that sector now total over \$250 trillion.

At its Annual General Meeting in Boston this year the Association will announce year-end figures for 2006. There is no question that these will continue to demonstrate strong growth, as new products, new applications and new participants come to market.

None of this could take place without the firm foundations ISDA has laid down for the privately negotiated derivatives industry. In the fields of documentation, risk management and public policy, ISDA prepared the landscape for the prudent and efficient development of this most innovative product set.

And while it is perhaps for its foundation work that ISDA is best known, it is the Association's ability to meet the demands of that growth which places ISDA at the forefront of the industry's next phase of development. Defining standards for credit derivatives trading, ISDA meets new products head-on; CDS on ABS, CDS on CDOs, CDS on loans and a whole array of variations on these products, while also taking on responsibility for CDX and LCDX index documentation. In facilitating new settlement arrangements for this fastest growing of derivatives sectors, ISDA is helping pioneer new territories for credit derivative products.

ISDA is also helping mature product areas stay current with the publication of its 2006 ISDA Definitions, which revise and update standard reference terms for interest rate and currency swap transactions. The industry benchmark swap rate service, ISDAFIX, continues to expand its range of currencies and will broaden its availability via a greater number of data vendors this year.

In the operations space, we are pleased to have played a major part in effecting real change to business processes and facilitating significant improvements across the operational landscape. The effect of the Novation Protocol on confirmations work-in-hand has been enormous.

ISDA noted improvements of more than 80 percent in credit derivatives confirmation processing in the past year. Increasing automation, based on FpML, the ISDA-sponsored communications standard, will greatly assist ongoing improvements across an ever wider range of derivative product areas. ISDA will continue to provide the operational forum for identifying and prioritizing areas of focus for its members.

In recent months, ISDA has expanded its mandate into the structured products arena, focusing on market practice issues arising from embedding derivatives into other instruments.

The Association is also in the vanguard of efforts to create Sharia-compliant derivatives. Inflation, emissions, coal and property are just some of the newer product areas ISDA has been instrumental in helping develop. A new Derivative Users Committee facilitates greater involvement of ISDA's growing buy-side membership.

In 2006 alone, the Association gained 100 new members. Greater representation among investment managers and expanding regional representation are among the key factors for that increase.

ISDA sees some of the most significant growth potential in Asia in the coming years and is committed to leveraging its presence in the region. AGM 2006 took place in Singapore, representing an increased rotation through Asia for the location of the industry's most significant annual event, alongside North America and Europe. ISDA's conference schedule has grown to over 100 conferences a year, helping membership, regulators and the media stay abreast of industry developments.

Individually, any of these achievements would be noteworthy. Collectively, they amount to a remarkable roster of accomplishments for a lean organization that is growing in size and scope. ISDA has a long and successful history in creating a sound legal framework in which the privately negotiated derivatives industry may thrive. It is set to have a long and successful future in furthering the prudent and efficient development of the industry.

2006 was ISDA's 21st year. The Association has come of age with the industry it represents.

Collateral

ISDA's Collateral Committee focuses on issues relevant to collateral managers. Currently, one of the main projects is in the context of the regulatory evaluation of collateral management practices that FSA, SEC and others have embarked on a thematic review of collateral practices. Their focus is on reuse of collateral, issues around portfolio margining and valuations.

Another focus of the Committee's work is portfolio reconciliation and its effect on collateral management. Operational and credit risk resulting from increased volumes of collateral calls need to be addressed.

Collateral & Financial Law Reform: ISDA's Collateral & Financial Law Reform Group monitors developments in collateral and financial law reform on a global, regional and national level. On the global level, ISDA participates in projects underway at UNIDROIT, UNCITRAL and the Hague Conference on Private International Law.

ISDA suggested the inclusion of a chapter on special provisions with respect to collateral transactions of the UNIDROIT Convention on Substantive Rules Regarding Intermediated Securities. This chapter aims at ensuring the equal treatment of title transfer collateral arrangements and security interest. It also ensures the operability of a close-out netting provision in collateral arrangements.

ISDA also contributes to the UNCITRAL projects on insolvency and secured transactions (Legislative Guide on Secured Transactions). This project covers conflict of law issues affecting secured transactions as well as security interests in bank accounts used as collateral in financial transactions. The Hague Securities Convention (outlining conflict of law rules for intermediated securities) and the Hague Choice of Courts Convention are also on ISDA's agenda. The latter instrument becomes especially relevant in the context of the current review of the EU Regulation on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (Brussels Regulation). The issue of forum shopping in light of the rules set out for exclusive jurisdiction clauses is relevant to derivatives transactions as well.

On the European level, ISDA continues to comment on the proposal by the European Commission to convert the 1980 Rome Convention on the Law Applicable to Contractual Obligations into an EU regulation (Rome 1 Regulation). The Brussels Regulation review, the proposal for a Rome Regulation and the European Commission's project on a single European contract law (Green Paper on the Review of the Consumer Acquis, or existing law) will continue in 2007.

Since 2004, ISDA has been suggesting to the European Commission to consider drafting an EU legal instrument to harmonize the legal regime for close-out netting across the EU. In its submissions to the Commission on its evaluation of the implementation of the EU Collateral Directive ISDA provided country-specific observations on most EU member states' implementation and also made several suggestions to revise the directive, e.g. in respect of the scope of counterparties covered by the directive to include non-financial entities, including special purpose vehicles, commodity trading firms and so forth.

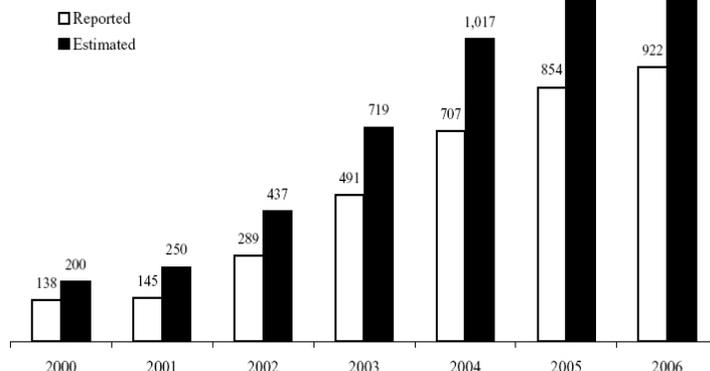
Another suggestion made was to broaden the scope of collateral assets eligible for collateral arrangements. The definition of "under control by the collateral taker" needs elaboration in several EU jurisdictions. The fourth major point of ISDA's response to the European Commission was with regards to including substantive provisions on close-out netting. This idea stems from ISDA's experiences from its various legislative projects in several "old" EU and EU accession countries.

The Commission's evaluation report acknowledges the inconsistencies regarding netting/set-off across several EU legal instruments and recognizes the possibility of improving the existing *acquis* in this regard. For the rest of 2007, ISDA will provide more detailed proposals and keep reiterating this message to the various EU entities concerned.

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Growth of value of total reported and estimated collateral, 2000 - 2006



The Association continues to develop a wide range of standardized documentation for commodities, credit, equity, foreign exchange and interest rates, as well as new product areas.

In the credit derivatives area, documentation to facilitate single name U.S. trades on loan credit default swaps was published, as well as documentation supporting LCDX, or the U.S. index of 100 names which commences trading in April 2007.

In Europe, a template to facilitate single name loan credit default swaps is progressing. In addition, the Association continued its work in the credit derivatives on asset backed securities space by updating its library of templates and publishing a separate form for credit derivatives on collateralized debt obligations. Ultimately, an ISDA Structured Credit Derivatives Definitions booklet will be published.

The Association is handling the CDX index documentation work, and in addition to updating various CDX Standard Terms Supplements for various indices, documentation for the new tranche ABX and Hybrix products were developed.

With respect to equity derivatives, a wide range of documentation initiatives was undertaken, including the publication of the 2007 Asia excluding Japan Master Variance Swap Confirmation Agreement and a revised 2005 Asia excluding Japan Inter-dealer Master Equity Derivatives Confirmation Agreement for Index Options and Share Options.

In Japan, the 2006 Japan Master Variance Swap Confirmation Agreement was published, as well as the Share Variance Swap Confirmation, to be used in conjunction with the 2006 Japan Inter-dealer Master Variance Swap Confirmation Agreement.

In Europe, the 2007 European Variance Swap Master Confirmation Agreement was published. This form facilitates index and share variance swap transactions with respect to Share Variance Swap Transactions with an Exchange in a Specified Country, on a share issued by an Issuer that is not a fund or similar collective investment scheme or an Index Variance Swap Transaction with a Related Exchange in a Specified Country.

The 2006 ISDA Fund Derivatives Definitions, a streamlined version of the 2002 ISDA Equity Derivatives Definitions, were published to facilitate transactions linked to in-

terests in various types of pooled investment vehicles, such as hedge funds and mutual funds.

The Association also published the 2006 ISDA Definitions, which updated the 2000 ISDA Definitions and Annex thereto. These Definitions, similar to the 2000 ISDA Definitions, are included in many OTC derivative transactions and offer the basic framework for interest rate and currency derivative transactions.

In the commodities derivatives area, ISDA is nearing completion of an updated version of the Commodity Reference Prices included in the 2005 ISDA Commodity Definitions. Members agreed that adding new commodities, as well as periodically updating the existing Commodity Reference Prices, required the Annex to the 2005 Definitions to be updated from time to time.

In addition, the Association published an Annex to the ISDA Master Agreement and a confirmation template to facilitate the purchase, sale or exchange of an emissions product on a spot, forward or option basis.

The emissions documentation for EU emissions allowance transactions was also updated and options and forwards are now covered. Lastly, a template to facilitate physical coal trading is nearing publication.

The Association is also nearing publication of the 2007 ISDA Property Derivatives Definitions, a Shariah compliant Master Agreement and accompanying transaction templates, a series of riders to the ISDA Master Agreement Schedule to facilitate covered bond transactions and a jurisdiction-specific Schedule for European asset managers.

Legal Opinions: We continued to expand the number of jurisdictions where we obtain legal opinions on the enforceability of netting and collateral provisions of the ISDA Master Agreement, adding new collateral opinions for Bahamas, Hungary and Taiwan. ISDA also published a new netting opinion for Anguilla and is commissioning a new netting opinion for Israel.

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Operations

Operations continues to be one of ISDA's busiest and highest profile areas of activity. At the strategic level, ISDA played a lead role in working with the grouping of major firms that have been making commitments to regulators in connection with reducing backlogs of outstanding confirmations and other matters.

In the course of 2006, the industry made strong progress in improving credit derivatives processing, significantly assisted by an extensive range of ISDA initiatives in operations and documentation. This resulted in a dramatic reduction in backlogs of outstanding confirmations by over 80% on average since September, 2005.

The ISDA Novation Protocol played a key role in effecting this reduction and continues to prove its effectiveness in having removed a major potential source of outstanding confirmations. Along with a series of ad hoc protocols to facilitate cash settlement of credit derivatives, this continues the important work to streamline operational efficiencies that began with the publication of ISDA's Operations Strategic Plan in December 2003 and its Operations Implementation Plan in March 2004.

The regulators had sought an account of what the issues were felt to be in the various asset classes following up on the work done and success achieved in the credit asset class. ISDA polled its members and collated a report for the firms, which the firms presented to and discussed with the regulators.

In the field of equities the firms committed in November 2006 to reduce levels of outstanding confirmations and to improve levels of confirmations automation. To facilitate these aims, it was recognized that the array of ISDA equity Master Confirmations Agreements needed to be expanded significantly; ISDA polled its members as to perceived priorities, and delivered published documents on time at the end of January. Further deliveries were due at the end of March 2007.

This process has been eased by firms' timely turnaround of comments on drafts. ISDA will continue to work with the firms as they make, and seek to deliver upon, regulatory commitments around confirmations.

The Operations Working Groups have also been busy. The Interest Rates Products Operations Working Group has been an important stakeholder in the 2006 Definitions project. It has also been responsible for defining the terms of the Settlement and Mark to Market matrices.

At a more granular level, the Group facilitated market agreement around Cash Settlement Payment Dates to the effect that these would be calibrated from the Trade rather than Effective Date of transactions going forward. It is also driving the implementation of the 2006 Definitions in the market, whilst another emergent workstream concerns changing the standards in respect of swaption Expiration Date rolls.

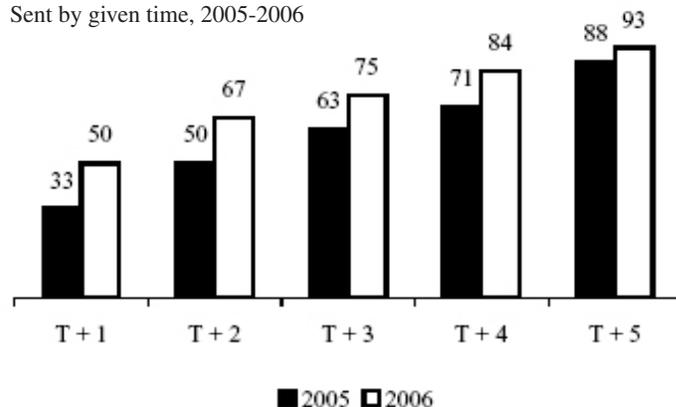
The Equity Operations Working Group has worked on statistics, and continues to be a forum for driving the uptake of automation and standardization of terms.

A newly-formed Commodities Operations Working Group met for the first time on March 22. ISDA continues to gather brief monthly Operations metrics, although it is likely that over time, this effort will be rolled into the statistics that firms provide on a monthly basis to regulators. On a geographical basis, levels of engagement in ISDA Operations work continue to increase in Asia-Pacific, with several successful meetings being held there.

2006 saw the active participation of locally based members in Asia Pacific Operations Committees. Under the strong recommendations of the two committees, ISDA organized the first ever operations training in both Singapore and Hong Kong in March 2007.

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Percent of credit derivatives confirmation
Sent by given time, 2005-2006



The growing prominence and importance of investment managers, managed funds and other non-dealer firms in the derivatives market precipitated the advent of the Derivative Users Committee as an additional channel to express views within the ISDA structure on derivatives matters.

The committee provides a forum for firms active in privately negotiated derivatives as clients, investment managers or managed funds, to discuss OTC derivatives operations processing, documentation, risk management and market practices. Provide a buy-side voice to ISDA initiatives in automation and straight-through processing and help further development of OTC derivatives through education and training. Unlike other ISDA committees, participation in this committee is limited to users of derivatives with an invitation of dealer representatives on a case-by-case basis. The committee meets every other month. The initial focus was on credit derivatives but the scope has broadened out to cover other asset classes as well. In the first set of meetings particular interest was on the discussions around dispute resolution, which is part of a separate working group.

The group was active and has provided feedback on the preparations for the meeting organized by the New York Fed between a group of 16 (now 18) major dealers and a group of international regulators, in September 2006. The committee has also been a means to stay updated on operations developments e.g. the plans and evolutions of the DataWarehouse. The committee will be the primary channel within ISDA for buy-side firms to stay updated and discuss OTC derivatives related matters from a user point of view. Participation through the committee will focus the user view on particular issues and give the user community a stronger voice in discussions of importance to them.

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Financial products Markup Language

Financial products Markup Language is the business information exchange standard for electronic dealing and processing of financial derivatives instruments.

In 2006, focus was on the development of version 4.2 with coverage of several new asset classes and the start of the work on 4.3. The main additions in version 4.2 are increased product coverage for the different asset classes e.g. relative swaps and inflation swaps, non deliverable settlement provisions and asset swaps; and additional business process and messaging coverage, including support for allocations, accounts and multiple party roles. Version 4.2 was published as a Trial Recommendation in December 2006 and will likely become a Recommendation in the first half of 2007. The initial work for version 4.3 includes coverage of new products and business processes including CDS on ABS and Loan CDS and the portfolio reconciliation business process. 4.3 will also include at a later stage the work of two new working groups covering repo and securities lending and commodity derivatives. In addition, further work on equities and CDS is planned, with an important focus on options through the options task force.

One of the focus areas in 2006 has been and continues to be the use and adoption of FpML by investment managers, custodians and other representatives from the traditional buy-side. In collaboration with Swift, FpML focused on coverage of a typical business process between investment

managers and custodians like trade notification. The coverage of buy-side specific business processes in FpML together with the commitment from Swift to transport FpML over SwiftNet is an important step towards automation of derivatives processing and handling for the buy-side. The active participation of buy side firms in the further development of the standard is a very positive development.

A new version of the FpML Editor/Viewer will be made available with the release of the Recommendation for version 4.2. Collaboration with other standards and technical standard setting bodies and will continue in 2007. The standards groups ISDA interacts with include ISO 20022 (Unifi) and WG 4; FIX protocol, ISITC, and the Data Standards Working Group.

A first working draft of Version 5.0, a major version with non-backward compatible changes is expected for the second half of 2007. Items considered include the use of multiple name spaces, changes in the use of type substitution and different ways to express an object e.g. for pre-trade and post trade purposes. See also Asia Pacific section.

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Credit Derivatives

The committee is a forum in which to address issues affecting the business and practice of credit derivatives trading. Taking in the views of dealers, end-user/hedgers and portfolio managers, the committee aims to find consensus on the most efficient, effective and appropriate means of conducting OTC credit derivatives transactions.

In the 2006 mid-year market survey ISDA reported a 52% growth in notional amount of credit default swaps to \$26 trillion. The continued growth has been made possible by further innovation in the market and introduction of new products, e.g. the development of credit derivatives on asset backed securities and loan-only CDS. The creation of the necessary ISDA documentation is one of the cornerstones for a successful development of these products.

In 2006 we witnessed as well the growing participation in the market of an expanding group of buy-side firms like traditional Money Managers. Operationally a lot of progress has been made in automating the post trade lifecycle. The development of an industry data warehouse for credit trades, managed by DTCC - a development that started in 2006 and will continue into 2008 - will drastically change the operational landscape for credit derivatives.

Work on the development of a long-term solution to provide cash settlement for CDS trades, with the possibility of retaining the physical settlement option, further progressed. The experience of the three credit events in 2006, Calpine, Dana and Dura, for which ISDA organized separate protocols and auctions, has been instrumental for the further development of the current off-the-shelf solution, which eventually will become a permanent part of the ISDA Credit Derivatives Definitions. Each of the aforementioned settlement protocols was successful and played a central role in allowing the market to settle the credit event.

Documentation projects completed in the last 12 months include: Additional Provisions for Secured Deliverable Obligations Characteristic and Additional Provisions for Reference Entities with Delivery Restrictions; Loan-only CDS documentation; CDS on ABS, CDS on MBS and CDS on CDO documentation; a Recovery Lock Credit Derivative template and updated market practice standards reflected in the most recent version of the Physical Settlement Matrix.

The regulatory focus on the Credit Derivatives market continued in 2006. Throughout the year the major dealers met with a group of regulators, led by the New York FED and the UK FSA. In the summer of 2006 the group reported

a dramatic reduction in backlogs of outstanding confirmations over 30 days by over 80% on average since September 30, 2005 and in September the major dealers additionally reported an overall reduction of outstanding confirmations by 70%.

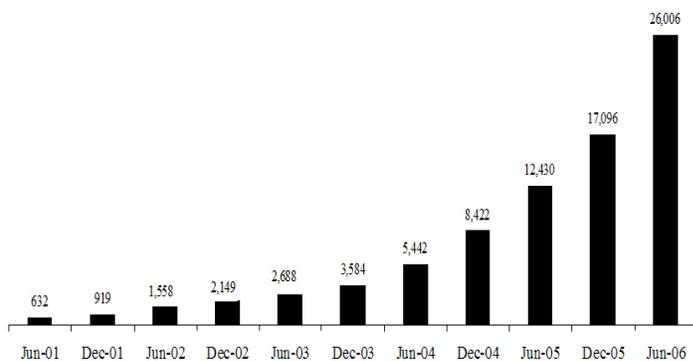
The 2005 ISDA Novation protocol played a key role in effecting this reduction and continues to prove its effectiveness. The ISDA Novation Protocol II (NP2) assures the same efficiencies for new entrants in the credit market.

Also, in December 2006, working closely with securities and loan-focused organizations, ISDA reaffirmed its membership's commitment to the maintenance of effective Chinese walls in the credit markets. This built on earlier, fuller statements of the relevant considerations in this area, in 2003 (for the US) and 2005 (EU). Further work on this subject is envisaged for 2007.

In the fall of 2006 ISDA and CDS Index Co agreed to bring the development of CDX index documentation and the related operational work under ISDA.

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*Notional amounts outstanding
USD billions*



Energy, Commodities and Developing Products

The Energy, Commodities and Developing Products Committee supports initiatives to improve trading practices in the commodity markets, and promotes sound legal and risk management practices in its documentation efforts in cooperation with other ISDA committees.

The Committee's agenda for 2007 is focused on meeting the documentation and policy needs of its members as we witness the continuing evolution of the commodity markets, as new commodities are traded, as financial innovation continues and as capital continues to flow into the sector.

The Committee, together with the combined efforts of ISDA's Documentation Committee, intends to continue to offer market participants alternative ways to manage physical and financial commodity risks more efficiently under new commodity-specific documentation and to open up the sector to new and different investors by encouraging broader market participation.

The Committee is already focused on meeting the changing needs of commodity market participants by considering a number of diverse documentation projects including: confirmation templates for transactions on commodity indices and commodity baskets; an annex to the ISDA Master Agreement for physical refined products and/or crude oil; and developing terms for trading carbon emissions reductions in the EU and renewable energy credits in the US. The ISDA Global Physical Coal Annex publishes in April. In December 2006, ISDA published a US Emissions Allowance Transaction Annex to the ISDA Master Agreement together with a confirmation template, in response to member demand for standardized terms for trading emissions in the US.

The new documentation covers purchases, sales or exchanges of emissions products on a spot or forward basis, as well as options to purchase, sell or exchange an emissions product. Emissions products currently covered by the new annex include Carbon Financial Instruments traded on the Chicago

Climate Exchange; emissions of nitrogen oxide; emissions of sulfur dioxide and any emissions allowance or credit created under a U.S. state cap-and-trade program. The flexible structure of the annex is designed to facilitate updates as new emissions products, such as renewable energy credits mentioned earlier, gain liquidity in the market.

On a related topic, in September 2006, ISDA published Version 3 of the ISDA EU Emissions Transaction Document, which, among other things, adds provisions for financially and physically settled options and forwards.

ISDA published the first Supplement to Sub-Annex A to the 2005 ISDA Commodity Definitions on May 12, 2006. This Supplement includes a new Commodity Reference Price for the NYMEX's reformulated gasoline blendstock for oxygen blending futures contract ("RBOB").

In a simultaneously issued Best Practices Statement, ISDA, in consultation with energy market participants, recommended that parties to over-the-counter derivatives transactions affected by the NYMEX's discontinuation of its New York Harbor Unleaded Gasoline (HU) futures contract, should replace references to the HU futures contract (discontinued in January 2007) with references to RBOB.

The Committee's most recent policy issue relates to the closing of US exchanges on Tuesday, January 2, 2007 in observance of a national day of mourning for former US President Gerald Ford. ISDA Guidance was issued as a supplement to guidance produced by ISDA on December 29, 2006, to specifically address OTC commodity derivative transactions that were affected by the unscheduled holiday. After consultation with commodity market participants (including NYMEX and Platts), ISDA recommended that January 2 should be treated as a Commodity Business Day for the purposes of calculating the Floating Price of NYMEX or COMEX-based commodity derivative transactions.

The guidance recommended that parties use the official settlement price for the relevant commodity futures contract published by the NYMEX on January 2 (which ISDA understood to be the rolled forward official settlement price for certain commodities on December 29, 2006).

With respect to commodity derivative transactions that reference other Price Sources that did not publish or report official prices or index levels, ISDA recommended that January 2 should not be treated as a Commodity Business Day and therefore, should not be included for purposes of calculating the Floating Price of such transactions.

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Equity Derivatives

The committee focuses on facilitating and addressing issues, ranging from documentation to market practice, related to the prudent development of the range of equity derivatives transactions.

The focus for 2006-2007 has been on share and index variance documentation globally. The first project that was completed was the 2006 Japan Interdealer Master Variance Swap Confirmation Agreement which published first an index variance swap template in June, 2006, then published a share variance annex in December, 2006. Both annexes are with respect to an underlying Japanese index or share.

As part of the continuing variance initiative, a joint European/US group worked to converge market disruption treatment and other items in variance documentation in those markets, the goal being, where possible, treatment should be the same unless there is distinct local market reason to diverge. The treatment of events agreed in Europe and the United States was ultimately debated and a decision as to how to treat it was largely implemented in the Asia Ex Japan documentation as well.

As a culmination of the variance work, the 2007 Americas Master Variance Swap Confirmation Agreement was published at the end of January, 2007. The 2007 AEJ Master Variance Swap Confirmation Agreement was published February 12, 2007, which facilitates documentation of index and share variance swap transactions with respect to an underlying index or share in Australia, Hong Kong, India, Indonesia, Korea, Malaysia, New Zealand, Singapore, Taiwan and Thailand.

Lastly, the 2007 European Variance Swap Master Confirmation Agreement was published in March of 2007. This template is designed to document index and share variance swap transactions with respect to Covered Transactions.

Covered Transactions are defined in the agreement as a Share Variance Swap Transaction with an Exchange in a Specified Country and on a share (excluding American Depository Receipts and Global Depository Receipts) issued by an Issuer that is not a fund or similar collective investment scheme; or an Index Variance Swap Transaction with a Related Exchange in a Specified Country. Specified Countries are defined as Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland or the United Kingdom.

Current but as yet unpublished documentation initiatives include a European swap and option Master Confirmation Agreement, which is due to be published in second quarter of 2007.

In non-documentation related areas, ISDA continued to monitor disclosure-related issues, with particular regard to cash-settled derivatives in takeover situations. ISDA urged further consideration on the part of the UK Takeover Panel before drawing conclusions on the effectiveness of its new (November 2005) regime; and advised the UK FSA not to extend the regime beyond takeovers, given that such a step was of doubtful merit even where takeovers were concerned, and of none where they were not. Also, ISDA held market discussions in June on the changes to the Hang Seng Index compilation methodology (a summary is available on our website) and provided guidance regarding US Exchange Closings on January 2, 2007 in observance of a national day of mourning for former U.S. President Gerald Ford.

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Structured Products

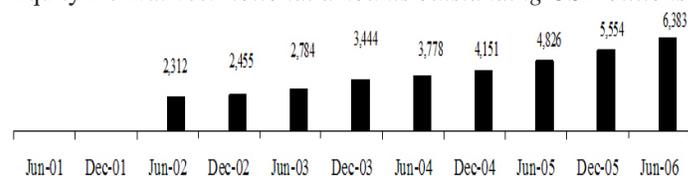
The Structured Products Committee was created early 2007, focusing on market practice and related issues of embedded derivatives.

Reflecting the hybrid nature of such instruments, the Committee mainly proceeds by means of joint work with securities-focused trade associations. Market practice issues relate notably to the interface between wholesale product markets and retail distribution, which may raise varying supervisory issues, depending on the jurisdiction or jurisdictions involved. The Committee and its predecessor working group (itself based on informal contact among members) has in practice focused on generating a set of principles relating to the provider-distributor interface and responding to a UK FSA discussion paper (DP06/4) on the same topic.

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Equity Derivatives: *Notional amounts outstanding USD billions*



International Accounting

The Accounting Committee discusses and examines current market practices as well as developments arising from accounting standard setters and the international harmonization of accounting standards. The Committee works with international accounting standard setters. The Committee has considered a wide range of issues including hedge accounting, disclosure practices, fair value measurement, and international harmonization.

In 2007 Zhang Weiguo, a senior Chinese regulator is to join the IASB. Zhang Weiguo is currently chief accountant of the stock market regulator, the China Securities Regulatory Commission, and will take up his new role on the Board in July 2007. Approximately 1,200 companies listed in Shanghai and Shenzhen are preparing to switch to IFRS-based standards from January 1 next year.

In 2006 ISDA submitted an industry response to the IASB's Discussion Paper on Measurement Bases for Financial Accounting. The discussion paper reviews the criteria for valuation, the possible bases for measurement on initial recognition, market vs. entity specific measurement objectives, value affecting properties and market sources, reliability, and includes an analysis of alternative methods.

Also in the past year the IASB announced that there will be no new major standards to be effective before 2009 (presumably including no new US fair value measurement standard). This is consistent with the objective to have a stable platform for IFRS for four years, although the IASB may still publish new standards, earlier adoption would only be voluntary.

Conceptual Framework project ISDA members also submitted comments on the joint IASB FASB paper on the Conceptual Framework for Financial Reporting. The Boards are looking to finalize their preliminary views on the objectives of financial reporting and the qualitative characteristics of "decision-useful" information. ISDA supports the idea of a joint Conceptual Framework and considers it a key development for future "principles-based" standard setting.

Fair Value Measurement: During 2006 the IASB decided to delay a key convergence project on fair value measurement by issuing a Discussion Paper on the US standard (SFAS 157) rather than an Exposure Draft. This puts back the issuance of a new IFRS on fair value guidance until at the earliest the beginning of 2009. The IASB is anxious not to be seen to by-pass its own due process, while concerns remain on the conceptual reasons for changing to an 'exit price objective' of fair value.

ISDA members recently discussed the implications of this, with significant concerns raised over the possibility of having different fair values in the US, EU and elsewhere, with the resulting consequences for reconciliation work and gap analysis. ISDA wrote to the IASB to express concerns about possible delays to the project and the possibility for further divergence between US GAAP and IFRS.

The IASB went ahead in publishing the Discussion Paper in November 2006, setting out its preliminary views on providing consistency in the measurement of fair value, when already prescribed under existing IFRS. ISDA's European Committee, together with members from North America are in the process of compiling industry comments on the paper. The comment deadline is April 2, 2007. Also as part of this work ISDA is organizing a workshop on the adoption and implementation of SFAS 157 and fair value measurement under IFRS in Boston, Massachusetts on Tuesday April 17, prior to ISDA's AGM. Leading accounting experts will discuss with invited members the key provisions and practical challenges of the new fair value measurement regime.

Accounting in Europe: In Europe in 2006 the lack of a decision on equivalency of non-EU GAAPs was a big concern. Two new Directives on transparency and covering prospectuses risked introducing new and very onerous reconciliation requirements for non-EU GAAP filers active in Europe's capital markets from January 2007 onwards. ISDA was actively engaged in the debate with the relevant authorities and was pleased with the EU Commission's decision to make the necessary amendments to the Directives to postpone the equivalency decision for a further two years. This allows both the Commission and the SEC in the US to progress their work on the road map for convergence in 2009.

New International Technical Accounting Group: ISDA set up a new technical accounting group primarily to focus on the implementation and application of IFRS. The International Financial Instruments Technical Accounting Group or InFITAG meets once a month to discuss topical issues related to applying IFRS in practice.

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North American Accounting

In 2006 ISDA's North American Accounting Committee singly and jointly submitted five comment letters to FASB and one to GASB. FASB requested ISDA to give fatal flaw comments on the Fair Value Measurement exposure draft and review of the Fair value option exposure draft.

Accounting committee representatives met with FASB staff on several occasions to educate them on the short-cut long-haul method and answer queries raised on cash collateral and understanding the nature and use of the Modified Calculation Agent Adjustment and Cancellation and Payment in the 2002 Equity Derivatives Definitions.

Fair Value Measurement: In September FASB issued Statement 157 on fair value measurement. The standard provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. It does not expand the use of fair value in any new circumstances.

Fair Value Options: In February 2007 FASB issued Statement 159, The Fair Value Option for Financial Assets and Financial Liabilities. It provides companies with an option to report selected financial assets and liabilities at fair value. The Standard's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. FASB believes that Statement 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting.

Short-cut method: ISDA met with FASB twice to advocate the shortcut method. Late in the year FASB proposed several clarifications to the short-cut method of paragraph 68 of Statement 133, one of which would deny further use of the short-cut method for a very prevalent current practice—the late hedging of fixed-rate debt. This was the first indication from FASB of progress made in revisiting the short-cut method, and does not represent the end of the process, which could eventually lead to a full amendment of Statement 133.

Hybrid Financial Instruments: ISDA and American Securitization Forum (ASF) in their comment letter to FASB applauded its prompt and effective response to preparers and the industry's concerns regarding the implementation of Statement 155, Accounting for Certain Hybrid Financial

Instruments, to financial instruments subject to prepayment. It supported the issuance of Proposed Issue B40 ahead of the adoption of Statement No. 155 by many preparers

GASB: ISDA's North American Accounting Committee submitted a joint comment letter to GASB's Preliminary Views documents relating to derivatives and hedging project on July 28. This highlighted the importance of issuing standards that improve the usefulness of financial reports based on the needs of the report users, as well as the need to balance costs and benefits of new standards. The letter also provides comments and suggestions on implementing fair value reporting of derivatives, including measures of hedge effectiveness, termination and change of intent, accounting for hybrid instruments, written options in a synthetic refunding, and transition requirements.

Equity Derivatives Accounting: In October ISDA submitted to FASB the examples requested on certain adjustments and early termination provisions related to Accelerated Share Repurchase, and other equity derivative contracts. FASB had asked ISDA to provide some examples with "the objective of educating the Board on why the adjustments do not result in the instruments being considered dual indexed." The examples submitted to FASB demonstrated these adjustments and their effect on preserving the fair value of transactions subject to the Definitions and followed proper interpretations of the relevant provisions of the Definitions.

In December ISDA submitted a comment letter on proposed FASB Staff Position EITF 00-19-b, accounting for registration payments arrangements. ISDA believes the proposed FSP represents an improvement to financial reporting, as it resolves the inconsistent accounting for registration payment arrangements that exists in practice. ISDA submitted comments on the proposed FASB Staff Position FIN 39-a. ISDA strongly supports the Board's decision to amend Interpretation 39 to permit offsetting of fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments. ISDA believes that the Proposed FSP will result in more relevant and useful disclosure of an entity's credit risk exposures.

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ISDA works with the US Department of the Treasury, the Internal Revenue Service and the UK's Inland Revenue to pass tax legislation and issue related regulations which provide certainty for market participants, reflect established market practice and sound policy, and encourage continued growth in the privately negotiated derivatives industry.

In the U.S., ISDA continues to follow issues of importance to ISDA members relating to proposed regulations providing taxpayers with an election to use the values of positions reported on financial statements as the fair market values of these positions for purposes of the mark-to-market accounting rules of Section 475 of the Internal Revenue Code.

ISDA has long supported the development of a book-tax conformity safe harbor under section 475. As ISDA has discussed in its prior submissions on this issue a book-tax conformity safe harbor of the type contemplated by the proposed regulations will (1) carry out the intent of Congress; (2) result in an appropriate determination of fair market value under section 475 in accordance with applicable tax principles; (3) clearly reflect a taxpayer's income; (4) reduce administrative burdens for both the Service and taxpayers; and (5) reduce the risk that income from global trading activities would be overtaxed or undertaxed. To this end ISDA submitted a comment letter to the IRS on March 7, 2006.

An ISDA working group was established in late 2005 to engage the Treasury on IRS Revenue Ruling 2006-1 which concluded that income from commodity index derivative contracts does not help a US mutual fund qualify for tax benefits usually given to mutual funds. The Ruling was originally intended to be applied prospectively, beginning with income recognized on or after July 1, 2006.

Following a meeting with Treasury, on April 27, 2006, ISDA submitted a comment letter to Eric Solomon, Acting Deputy Assistant Secretary, Regulatory Affairs at the U.S. Treasury, in which it reiterated the position that the Ruling was inconsistent with the reasonable expectations of many industry participants and would require significant modifications to the portfolios of a number of regulated investment companies (RICs) as well as would have prevented other RICs from implementing plans to invest in broad-based commodity index derivatives contracts.

ISDA commented that, contrary to the position taken in the Ruling, broad-based commodity index derivatives should be treated as "qualifying income" under the RIC provisions of the Internal Revenue Code because (a) that is the correct result in terms of tax policy; (b) these derivatives are pas-

sive investments as envisioned by Congress in the legislative history of the Tax Reform Act of 1986 (TRA 1986); and (c) the acquisition of these derivatives does not constitute "trading in commodities", which Treasury indicated in the Tax Reform Act of 1986's legislative history was inappropriate for RICs.

ISDA requested that Treasury and the IRS reconsider the position taken in the Ruling but if unable to do so before July 1, 2006, asked that the effective date of the Ruling be deferred until July 1, 2007 in order to provide Treasury, the IRS and other interested parties ample time to consider fully the important tax policy and interpretive issues presented by the Ruling.

ISDA included additional information in its submission with respect to commodity-linked structured notes, their underlying reference commodity indices and commodity 1940 Act funds as follow-up points to the earlier meeting.

On June 2, 2006 the IRS released Revenue Ruling 2006-31, which modifies Revenue Ruling 2006-1 to extend until September 30, 2006, the transition period provided by that ruling. It also clarifies that Revenue Ruling 2006-1 was not intended to preclude a conclusion that income from certain instruments, such as certain structured notes, that create a commodity exposure for the holder is qualifying income under section 851(b)(2).

To the extent necessary, the UK Tax Committee will focus on changes proposed by Chancellor Gordon Brown in his 2007 Budget.

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European Regulatory

Over the last 12 months, the ISDA European Regulatory Committee has maintained its focus on ensuring a regulatory environment in Europe allowing the OTC derivatives sector to grow – based on a combination of flexibility and legal certainty.

The Market in Financial Instruments Directive remains a major priority for the ERC, with the implementation deadline of November 1, 2007 drawing ever closer.

For ISDA, this has meant close collaboration with other financial sector trade associations in efforts to ensure sound, coherent implementation of MiFID throughout Europe.

ISDA has particularly focused a great deal of effort in ensuring that the European Commission and European Union Member States understand that it would not be proportionate to apply best execution requirements under MiFID to the largely wholesale OTC derivatives market

In that respect, ISDA's efforts have been successful, with recognition from the key European Securities Committee of the general principle that best execution should only apply where a firm is acting "on behalf of a client" (not generally the case in OTC derivative dealer markets).

ISDA must continue to work with the other trade associations to ensure that the Committee of European Securities Regulators maintains this principle and irons out any remaining ambiguities in this guidance.

On general implementation of MiFID, ISDA has been working with the MiFID-Connect group of trade associations to clarify compliance, in particular on issues such as conflicts of interest and investment advice.

To further underline the long shadow cast by MiFID, ISDA has also been readying itself and/or responding to the reviews mandated by MiFID, on firstly, the (possible) extension of pre- or post-trade transparency requirements to non-equities and secondly, the exemptions for specialist commodity firms and specific types of commodity derivative.

Concerning pre- and post-trade transparency, ISDA questioned the value of applying any new rules to OTC derivatives, in submissions to the European Commission and CESR, and these arguments seem to have been accepted: cash bond markets are the main focus of their deliberations in this context. ISDA is remaining vigilant, however.

On the commodities side, ISDA has been working with a number of other trade associations representing commodities firms (in the Commodity Derivatives Working Group or CDWG), to craft a response to the European Commission's review of the exemptions from MiFID for specialist commodity firms and specific types of commodity derivative.

The review also deals with a wide number of other issues, including market abuse rules, market transparency rules, prudential regulation, whether there is any need to regulate spot trading, and the content of a licensing regime, should one be necessary. The CDWG has to submit a response to this Call for Evidence by the end of April 2007.

Other items on the agenda of the ERC have included:

- Retail Structured Products – the selling of which is increasingly attracting the attention of regulators at national level;
- Hedge funds – which continue to attract negative criticism from some quarters, particularly in some of the larger EU Member States;
- Asset management – with ISDA tracking the development of the European Commission's review.

In the coming year, ISDA will continue to focus on MiFID implementation and the ongoing reviews on transparency and commodities. Other issues in our sights include:

- Scrutiny of OTC derivatives – at EU level, as well as nationally, in the Financial Stability Forum and the International Organization of Securities Commission.
- Hedge funds (where similar issues crop up as with OTC derivatives);
- Retail Structured Products;
- Collateral/Netting (supporting the efforts of the Collateral Law Reform Group as appropriate).

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North American Regulatory

The Regulatory Committee evaluates and responds to proposals from international banking and securities regulators as well as individual country legislators. ISDA's primary objective is to help public policymakers arrive at a responsible and appropriate supervisory framework for a rapidly evolving financial marketplace in which derivatives are a fundamental component.

Over the past year the North American Regulatory Committee has been active on a number of fronts to increase ISDA's presence and effectiveness in the US. A sampling of ISDA's activities over the last year includes

- Meeting with the Chairman and five of the six Governors of the Federal Reserve;
- Meeting with the Undersecretary of Domestic Finance and the Assistant Secretary for Financial Markets at the US Treasury;
- Hosting US Senator Robert Bennett at ISDA's headquarters in New York;
- Meeting with Commodity Futures Trading Commission Chairman Reuben Jeffrey; and
- Regular meetings with principals and staff of the U.S. Congress, the executive branch and the independent agencies.

ISDA also participated in a number of public forums, including:

- Appearing before the Commodity Futures Trading Commission's Agricultural Advisory panel;
- Participating in the US Treasury conference Developing Deeper, More Liquid Local Capital Markets; and
- Speaking at the Municipal Securities Rule Making Board's annual meeting of market participant associations.

ISDA also worked with the Government Accountability Office on two reports which they are currently preparing, having to do with purported manipulation of energy prices and the communications architecture of the OTC derivatives industry, respectively.

ISDA met with the GAO both in person as well as through follow-up contacts. ISDA also discussed the implications of the merger of the Chicago Mercantile Exchange and the Chicago Board of Trade with the US Department of Justice.

In addition to these projects, ISDA continued to work with other trade associations on the reauthorization of the Commodity Exchange Act.

ISDA successfully prevented the adoption of legislation which would have added new reporting requirements to participants in the OTC energy derivatives markets. ISDA also submitted comment, and received favorable outcomes in various rulemakings.

Upcoming Activities

Over the course of the coming year ISDA continues its efforts to promote the best interests of the OTC industry while opposing unwarranted regulation.

Part of our success in this area in the past has stemmed from our willingness to reach out to other trade associations with similar interests, and this will continue over the coming year.

Some of the projects ISDA will continue to pursue include:

- Working for reauthorization of the Commodity Exchange Act through legislation which will provide necessary funding for the agency without overturning the reforms made in the Commodity Futures Modernization Act of 2000;
- Working with the President's Working Group on Financial Markets to promote that group's continued support for light touch regulation;
- Monitoring the Congress and independent agencies for regulatory or legislative developments of interest to the OTC industry; and
- Continuing to meet regularly with principals and staff of the U.S. Congress to educate them about the industry and promote our legislative agenda.

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Risk Management

The Risk Management Committee is a forum created for the purpose of discussing the prudential treatment of ISDA member firms and advances in risk management techniques. Committee members are invited to join Working Groups, the size of which enables interaction and facilitates the production of research documents, surveys, or recommendations to regulators. The Risk Management Committee receives quarterly updates on the activities of the working groups, together with ad-hoc information bulletins on topical issues.

Throughout 2006, ISDA continued its dialogue with the Basel Committee on Banking Supervision, the Committee of European Banking Supervisors and national regulators on Basel II implementation, the application of the Capital Requirements Directive to specialist commodity firms in the EU, and the review of the Large Exposures Directive.

ISDA's main risk management focus in 2006 was on the consistent implementation of Basel II throughout the G-10 and the EU. At international level, ISDA set up an Incremental Default Risk Technical Group to further the industry's dialogue with the Accord Implementation Group Trading Book Working Group, a sub-group of the Basel Committee responsible for the implementation of the Trading Book Review. Key aspects of the capital treatment of derivatives and traded credit risk are determined by the Review.

In the UK, ISDA joined forces with the London Investment Banking Association and the British Bankers' Association to produce a detailed response to the UK Financial Services Authority Consultation Paper implementing the Capital Requirements Directive (CP 06/3). Our focus was on counterparty credit risk and market risk.

ISDA is represented on, and actively contributes to the work of five of the FSA's Standing Groups tasked with interpreting the Directive and applying it to complex transactions: the Credit Risk Standing Group, the Trading Book Standing Group, the Operational Risk Standing Group, the Credit Risk Mitigation Standing Group and the Securitization Standing Group. We expect our involvement in the Standing Groups to increase in 2007.

In the US, ISDA, jointly with LIBA, the Institute of International Finance and the Risk Management Association, commented on the Market Risk Notice of Policy Rulemaking issued in September by the US regulatory Agencies. ISDA will comment on the Basel II NPR in March 2007.

In Japan, Basel II comes into force in March 2007. The Financial Services Agency consulted ISDA on the prudential treatment of collateralized transactions and of derivatives embedded in structured products.

In France, the limitations imposed on the inclusion of banking book credit derivatives under ISDA Master Agreements were lifted following extensive dialogue with Commission Bancaire.

Independently from Basel II implementation, substantial resources were dedicated by ISDA to the review of the prudential treatment of specialist commodity firms. This review, mandated by the Capital Adequacy Directive, could see these firms subject to a prudential regime seen as inadequate and unduly onerous.

There is concern that regulation could lead to re-location of commodity derivatives business outside of the EU and loss of market liquidity. ISDA, jointly with EFET and the FOA, advocates the adoption of a light touch prudential regime for specialist commodity firms. We will discuss our proposal with European regulators and Ministries of Finance in the course of 2007. The Commission's deadline on the commodity review is the end of 2008.

Throughout 2006, ISDA helped to co-ordinate industry thinking on the review of Large Exposures legislation by the EU Commission. This work culminated in the publication of an extensive report into the management of concentration risk by large internationally active firms, which was shared with the EU Commission and CEBS. More recently the review has been added to Europe's better regulation agenda, and prioritized as an area for the reduction in administrative burden. The Commission's deadline for this work is December 2008.

Finally, in 2006 as in previous years, ISDA organized high profile risk management seminars in London, New York and Tokyo. We hope to expand this programme into China and South East Asia in 2007.

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ISDA's Asia-Pacific Office caters for members based in the Asia-Pacific region (excluding Japan). Generally, but not exclusively, attention is focused on members active in Australia, Hong Kong, India, Indonesia, Malaysia, New Zealand, People's Republic of China, Pakistan, Philippines, Singapore, South Korea, Thailand and Taiwan.

In 2006 ISDA's Asia-Pacific Office focused on developments in the following countries:

In **China** ISDA arranged for a number of meetings with various regulators. ISDA met with Chinese Banking Regulatory Commission (CBRC) officials in both Beijing and Shanghai several times this past year to discuss the use of OTC derivatives documentation, risk management and the development of derivative products.

ISDA also met with The People's Bank of China (PBC) for constructive discussions on the extent of legal reform required to support the growth of the derivatives industry and in particular to ensure the enforceability of close-out netting, single agreements and collateral agreements. PBC encouraged ISDA to organize further educational events for Chinese regulators.

ISDA met with State Administration of Foreign Exchange (SAFE) and with China Foreign Exchange Trade System (CFETS) on several occasions last year to discuss the drafting and implementation of the RMB Forward Principal Agreement, also vis-a-vis the use of ISDA documentation.

ISDA continued to meet with representatives of both the China Securities & Insurance Regulatory Commissions (CSRC & CIRC) to exchange views on the development of both OTC and exchange-traded derivative products.

In September 2006, ISDA organized a half-day seminar in Beijing for members and other interested industry participants explaining basic OTC derivative products, pricing, and risk management concepts. In early 2007, ISDA organized a seminar, exclusively for regulators, covering the basics of risk management and the need for close-out netting in OTC derivative contracts to be enforceable. Both events were conducted in Putonghua (Mandarin).

In **India**, ISDA was encouraged to see the Reserve Bank of India (Amendment) Bill, 2006 enacted and come into force. In December, ISDA met with the Reserve Bank of India (RBI) to discuss developments including the Draft Comprehensive Guidelines on Derivatives addressing permissible derivative instruments, suitability / appropriateness questions and more.

ISDA since submitted comprehensive comments on the draft and is discussing those further with RBI. ISDA also continued discussions with the Securities Exchange Board of India (SEBI) on the need for clarification of the current disclosure requirements applicable to foreign institutional investors.

In **Malaysia**, ISDA has been working with Bank Negara Malaysia (BNM), Prokhas and the Malaysian Deposit Insurance Corporation (MDIC) on potential changes to the Danaharta Act and the Deposit Insurance Corporations Act so as to enhance legal & regulatory certainty for close-out netting under the ISDA Master Agreement. Suggested legislative changes continue to be discussed between relevant authorities and ISDA.

Mid-2006, the government of **New Zealand** issued a series of papers related to a detailed "Review of Financial Products and Providers" and ISDA submitted comprehensive comments on the issue whether derivatives should be regulated and if so, whether as "securities" or as "futures contracts". Further discussions with authorities are underway.

In **Korea**, ISDA met in early 2007 with the Korean Federation of Banks, the Financial Supervisory Services (FSS) and members to discuss the new Code of Best Practice re OTC derivatives as well as proposed local documentation solutions. Working with representatives of the Korean Options Swaps and Derivatives Association as well as other relevant bodies, ISDA seeks to further contribute to solutions related to local documentation.

In **Hong Kong** and **Singapore**, ISDA continued to work with authorities on a variety of issues as they arose over the course of a year.

An Asia Pacific **FpML** working group started meeting in November 2006. The group will meet regularly to discuss different parts of the FpML standard, exchange implementation experiences and support training and other FpML related initiatives.

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Central & Eastern Europe / Islamic Finance

ISDA's Central & Eastern Europe Committee focuses on the legislative and regulatory developments made in EU accession/candidate countries, CIS countries, African countries plus Middle Eastern jurisdictions.

For over ten years, ISDA has been actively promoting law reform in several **CEE** and **CIS** countries with regards to the legal framework for derivatives transactions. The library of ISDA netting opinions now covers the **Czech Republic, Hungary, Poland** and **Slovakia**. In all these countries, ISDA is working on improvements to the legal framework for collateral arrangements pursuant to the implementation of the EU Collateral Directive, as in several of the EU accession countries, several issues need to be addressed before clean collateral opinions can be obtained. The CEE Committee is also working specifically on netting and collateral-related issues in **Romania** and **Croatia**. A collateral opinion for **Hungary** has been published and a **Greek** collateral opinion has been shortlisted for 2007. An **Israeli** netting opinion has been commissioned after ISDA participated efficiently in the drafting process of the local law on financial agreements.

In light of ISDA's experiences in CEE countries, especially in EU accession countries, ISDA since 2004 has been suggesting to the European Commission to consider implementing a European legal instrument to harmonize the substantive rules of close-out netting across the European Union. The Commission's evaluation report on the implementation of the EU Collateral Directive explicitly recognizes to harmonize the need to consolidate the EU legal regime for netting/set-off across various directives. ISDA had made two submissions to the European Commission providing industry views on several aspects of the EU Collateral Directive plus observations on most member states' implementation.

On the global level, the latest draft of the UNIDROIT Convention on Intermediated Securities pursuant to a submission by ISDA now includes a special chapter on collateral arrangements that ensures equal treatment of security interest and title transfer collateral arrangements. This chapter also contains the definition of a close-out netting provision.

In CIS countries, the focus continues to be on **Russia**, where a bill amending the existing anti-gaming provision of the Russian Civil Code has been adopted in order to clarify the situation for derivatives transactions. Several issues remain for discussion going forward.

ISDA has started analyzing in more detail the legal situation in **Kazakhstan** with draft legislative proposals to be

submitted later in 2007. **Ukraine** will be a new addition to our list of CIS countries in 2007.

In several CEE and CIS countries ISDA has been approached to cooperate in efforts to develop local documentation for domestic transactions. Also, ISDA is involved in a joint effort to develop documentation for transactions in Islamic derivatives.

In Africa, ISDA is involved in the drafting process of local netting legislation in **Mauritius** that will also feature aspects relevant to financial collateral arrangements. **Egypt**, among other North African countries, plus **Nigeria** have been shortlisted for further action in 2007.

For derivatives transactions with **Islamic** countries, ISDA, in cooperation with the International Islamic Financial Market, is developing a master agreement based on the 2002 ISDA Master Agreement.

The aim is to develop a template for transactions in Islamic derivatives with counterparties across the global market in Islamic finance. The core features of the ISDA Master Agreement are to be preserved and adapted to Shariah principles where necessary. Several practices from Islamic finance new to ISDA documentation will be included in the future document, e.g. arbitration. It is envisaged to also develop ISDA language, e.g. definitions or templates, for specific Islamic products, e.g. murabaha, arboun or profit-rate swap transactions. From the outset of the drafting process, Shariah scholars have been informed about the process. This is in order to ensure that the necessary discussion about the concept of derivatives is being conducted at the appropriate time with the relevant people. The same goes for certain core principles of ISDA documentation to be included in the future document. It is envisaged that the final draft will go through the process of Shariah approval immediately. This project is the first attempt to draft master documentation for the use in pan-Islamic markets.

In addition to developing documentation for Islamic transactions, ISDA is in contact with various regulators in GCC countries plus **Pakistan** and **Malaysia** to improve the legal and regulatory framework for derivatives and netting generally. Throughout 2007 ISDA in co-operation with IIFM will promote the project with market participants and regulators across the globe.

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The Canada Steering Committee meets regularly to discuss issues that effect ISDA's Canadian members. During these meetings, members are also updated on the activities of the Legal/Regulatory Subcommittee and Accounting Subcommittee.

Canadian Bankruptcy Law and Securities Transfer Law Reform: Basel II requires financial institutions to have legal certainty that they will be able to enforce rights against collateral in a timely fashion in the event of a counterparty's insolvency in order to take collateral fully into account for capital purposes and, accordingly, ISDA has been working to ensure that Canadian legislation meets these standards.

To further such goals, ISDA representatives met with Industry Canada and Finance Canada in October and February to discuss ongoing bankruptcy law reform initiatives. ISDA has also submitted a variety of materials to the Ministries of Industry and Finance on the importance to capital markets of timely revisions to applicable bankruptcy and insolvency legislations, including legislative drafting suggestions for the statutes in question.

On July 28, ISDA submitted comments to the Autorité des Marchés Financiers (AMF) Advisory Committee on its re-

port titled **Regulation of Derivatives Markets in Québec**, and is awaiting draft legislation. On July 31, ISDA submitted comments on the portions of the Ontario Commodity Futures Act Advisory Committee Interim Report which proposed regulation of the over-the-counter derivatives market in Ontario, and is awaiting a final report from the group.

As encouraged by ISDA in its submission on topic, the new **Ontario Securities Transfer Act** (the STA) and similar legislation in Alberta came into effect early in 2007. The STA creates a comprehensive system of rules dealing with the transfer and holding of securities and interests in securities. Modeled on Article 8 of the US Uniform Commercial Code, the STA has essentially brought Ontario and Alberta laws into line with current international commercial practice.

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Latin America

The Latin America Committee addresses business and regulatory issues of importance to ISDA members in Latin America. In light of recently enacted and pending legislation throughout the Latin America region, this initiative has been intensified.

The focus of the Latin America Committee initiative will be on working with country regulators and potential new members to introduce them to ISDA, its documentation and other activities through meetings and conferences.

The Committee continued its work to promote financial law reform and growth in the OTC derivatives markets in Central and South America. Several jurisdictions were the subject of attention, including **Argentina, Chile, Colombia** and **Peru**.

In Argentina and Colombia, the Association was contacted by representatives of the respective Central Banks to obtain advice on international approaches to insolvency laws relating to the treatment of OTC derivative transactions.

The Association utilized the 2006 ISDA Model Netting Act and Guidance as an initial effort to provide information on the benefits of close-out netting and the importance of harmonizing key elements of any insolvency reform legislation.

In Argentina, the Central Bank prepared a draft insolvency bill and ISDA engaged in a dialogue with regulators on critical provisions of interest to members.

In Colombia, Chile and Peru, the Association ensured that the ISDA Model Netting Act and accompanying material were available to central bank regulators and legislators in an effort to begin the process of legislative reform.

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Japan

Throughout 2006, ISDA continued to provide forums for members in Japan in order to promote the development of privately negotiated derivatives markets. ISDA also continues to support regulatory initiatives aimed at improving the market environment.

A major focus of the Japan Committee throughout 2006 continued to be on regulatory developments, including Basel II implementation and the new legislation viz. the Financial Instruments and Exchange Law (FIEL), a blanket legislation of comprehensive and cross-sectional protection for users of investment products including OTC derivatives.

Basel II came into force in March 2007 in Japan, and, the Financial Services Agency of Japan (JFSA) consulted ISDA on derivatives-related issues, such as the prudential treatments of collateralized transactions under ISDA Credit Support Documents and of derivatives embedded in structured products.

As a continuous effort, ISDA organized a joint seminar with the Tokyo Risk Managers Association (TRMA) on the risk management issues of credit derivatives as well as market and settlement issues.

As to activities related to FIEL, a working group was formed after FIEL was enacted in June 2006, and the group compiled a comment letter in August consisting of two main parts: a proposal of the languages to be included in cabinet ordinances in which in-depth treatments would be stipulated; and a request for clarification of articles of the law.

The key issues discussed in the meetings with JFSA after submitting the letter were: 1) the regulatory framework of emissions trading; and 2) the scope of material non-public information in light of insider trading regulations for credit derivatives under FIEL. The exposure draft of cabinet ordinances is expected to be released in spring 2007, and will continue discussions with regulators in the course of implementation.

Over the past year, members of Japan Operations Committee and Japan Documentation Committee jointly conducted reviews of provisions in the proposed drafts of the 2006 ISDA Definitions. Japanese members focused mainly on straightening the definitions of Japanese Yen Rate Options.

Over the course of 2006, the Japan Variance Swap Working Group, a subgroup to the Japan Equity Derivatives Committee, worked on the standardization of variance swap confirmation terms relating to Japanese shares and indices.

The Working Group successfully completed the project by publishing the Japanese Master Variance Swap Confirmation Agreement with Annex IVS (index variance swap) in June 2006, followed by Annex SVS (share variance swap) in December 2006.

Throughout the year, the Japan Credit Derivatives Committee's subgroup, the Market Practice subcommittee continued to serve as a forum to address local market issues. Discussions in 2006 included a review of Japanese municipals CDS documentation in light of so-called Yubari shock (in June 2006, city of Yubari in Hokkaido, Japan applied to designate itself as *zaisei saiken dantai*, a financially troubled local government. It was the nation's first such case since 1992.) and issues associated with potential development of Loan CDS market in Japan.

The Japan Joint Market Practice Forum Working Group, another subgroup to this Committee, met several times in 2006 to discuss handling of material non-public information by credit market participants in Japanese Credit Derivatives market.

Members had discussions not only within the group but also with the members of the FIEL Working Group, other trading associations and local regulators to determine how different or the same the Japanese Supplement should be compared to the Joint Market Practice Forum's original statement and recommendations published earlier for the use of the U.S. and European markets. The Working Group will continue discussions in 2007.

As one of the local documentation projects, Japan Committee members plans to work on revisions to ISDA Credit Support Annex under Japanese Law in the coming year.

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ISDA's mission includes several educational objectives. One is to advance international public understanding of derivatives activity. Another is to promote the development of sound risk management practices. Still another is to educate members and others on legislative, regulatory, legal, documentation, accounting, tax, operational, technological issues affecting derivatives participants.

Education: ISDA now has a complete set of basic derivatives education courses aimed at professionals without previous financial training. Four years ago, ISDA offered only Fundamentals of Derivatives, which covers mostly interest rate derivatives, and the Operations Training Seminar.

Now, ISDA offers fundamentals courses in credit derivatives, commodity derivatives, and equity derivatives, along with the Credit Derivatives Workshop, a one-day seminar combining training on credit derivative products, documentation, and operations.

In addition to regular derivatives product education seminars in London and New York, ISDA conducts seminars at major financial centers around the world. In 2006, for example, ISDA offered Fundamentals of Derivatives in Boston, Chicago, Hong Kong, and Stockholm; Fundamentals of Credit Derivatives in Sydney; and Fundamentals of Commodity Derivatives in Houston. Finally, the Office of the Comptroller of the Currency, which regulates federally-chartered U.S. banks, requested that ISDA provide credit derivatives training to its supervisory staff in Washington. ISDA responded with a two-day seminar, in which the first day covered product knowledge and the second day covered documentation.

Research: ISDA continues to conduct its semi-annual Market Survey and its annual Margin Survey and Operations Benchmarking Survey. All surveys receive extensive attention from the press and from regulators. The press widely cites the ISDA Market Survey, for example, for evidence of the continuing strong growth in credit derivatives. Regulators pay close attention to the Margin Survey, which reflects trends in credit enhancement and collateral coverage; and to the Operations Benchmarking Survey, which reports member firms' progress in improving and automating their derivatives processing functions.

ISDA conducted two one-off surveys in 2006. The first was a survey of times required to negotiate an ISDA Master Agreement; the survey had been conducted once before, in 2004. A total of 181 member firms responded to the Survey. The second was a survey of concentration of counterparty credit exposures among major dealers. Both surveys are available on the ISDA website.

Risk Management: ISDA continues to conduct research in support of its risk management activities. At present, ISDA is conducting an ongoing analysis of the 40 percent discount imposed by Basel II on hedges that use credit default swaps that do not include restructuring as a credit event.

Depending on the results, the analysis will be relevant to continuing discussions of the regulatory capital treatment of credit derivatives. In the coming year, ISDA will initiate research on incremental default risk in bank trading books and its appropriate capital treatment.

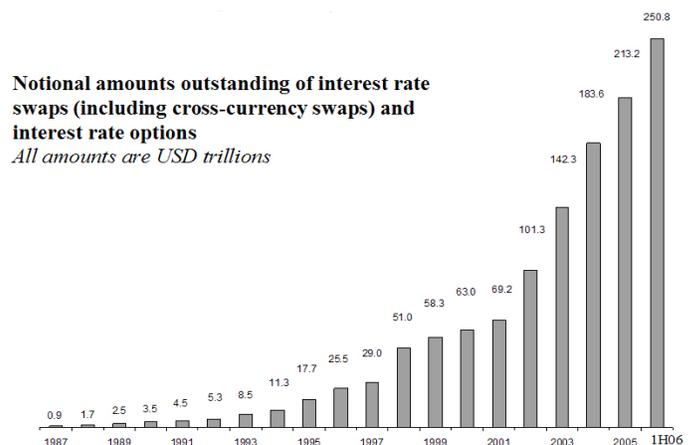
Market Practice: During 2006, ISDA began posting to its website explanatory notes and spreadsheets that clarify derivative trading practices and certain definitions. In addition, ISDA research participated along with legal counsel in the production of the 2006 ISDA Definitions.

The task of the research team and its associated working group was to survey market practice regarding day count conventions and to develop mathematical expressions of current conventions that would be simpler to interpret than purely verbal descriptions. The results were incorporated into the 2006 ISDA Definitions.

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Membership

In 2006 ISDA welcomed 100 new members. As of end March 2007, ISDA's membership totals 780 financial institutions, government entities, corporations and professional service providers, spanning 54 countries across six continents. ISDA continues to work through its active committees, working groups and educational efforts to address ongoing industry needs.

ISDA's members are classified into three categories according to the guidelines contained in its by-laws.

Below is a description of each category as well as some of the benefits of membership.

Primary Members

Dealer firms: According to the Association's by-laws, every investment, merchant or commercial bank or other corporation, partnership or other business organization that, directly or through an affiliate, as part of its business (whether for its own account or as agent), deals in derivatives shall be eligible for election to membership in the Association as a Primary Member, provided that no person or entity participates in derivatives transactions solely for the purpose of risk hedging or asset or liability management.

Associate Members

Service providers: ISDA's Associate Membership category is designed for service providers — brokers, law firms, accounting firms, consulting firms and software providers — who are active in the privately negotiated derivatives business.

Associate Membership provides a forum for these industry participants to contribute to and stay abreast of important developments and initiatives.

Subscriber Members

End-users: ISDA's Subscriber Membership category is designed for corporations, financial institutions, government entities and others who use privately negotiated derivatives to better manage financial risks.

Subscriber Membership provides a forum for these industry participants to contribute to and stay abreast of important developments and initiatives.

Only ISDA members are entitled to receive the Association's legal opinions on the enforceability of the netting provisions of the ISDA Master Agreements. ISDA has obtained netting opinions for 51 jurisdictions.

Netting opinions for Malta and Slovakia have been commissioned. In addition to the netting opinions, ISDA provides

members with legal opinions on the ISDA Credit Support Documents from 38 different jurisdictions.

Collateral opinions for Taiwan and the Bahamas have been commissioned.

Only ISDA members are able to participate in the Association's numerous Committees, Working Groups and Task Forces, which serve to address issues in the rapidly evolving derivatives market.

ISDA members exclusively receive the numerous policy papers, response letters, market survey data and communications on key business issues ISDA and its consultants generate.

ISDA members receive substantial discounts when ordering copies of the Master Agreement and supporting documents published by the Association and widely used to document privately negotiated derivatives transactions.

Primary Contacts at member firms receive complimentary copies of all new publications upon their release.

Only ISDA members are eligible to attend the Association's Annual General Meeting, which is the industry's preeminent forum for the discussion of developments and issues in the privately negotiated derivatives business.

In addition, a strong preference is given to enlisting speakers from ISDA member firms at the Association's numerous conferences and seminars.

For Information on ISDA membership, please contact Liz Zazzera (lzazzera@isda.org).

On the following pages is a list of **ISDA's members**.

Firms shown *in italics* are those that have joined since January 2006.

ISDA Primary Members

ABAXBANK S.p.A.
Abbey National Treasury Services plc
ABN AMRO Bank N.V.
ABSA Bank Ltd.
Abu Dhabi Commercial Bank
Accord Energy Limited
Agricultural Bank of China
Allied Irish Banks, plc
American Electric Power Service Corporation
American Express Company
American International Group, Inc.
AmMerchant Bank Bhd.
Andorra Banc Agricol Reig, S.A. (ANDBANC)
Anglo Irish Bank Corporation Plc
Aozora Bank
Assured Guaranty Corp.
Australia and New Zealand Banking Group, Limited
Banca Akros Spa
Banca Aletti & C. S.p.A. (Gruppo Banco Popolare di Verona e Novara)
Banca d'Intermediazione Mobiliare IMI S.p.A.
Banca del Gottardo
BANCA INTERMOBILIARE SpA
Banca Monte Dei Paschi Di Siena SpA
Banca Nazionale del Lavoro
Banca Popolare di Milano scarl
Banca Profilo, S.p.A.
Banco Bilbao Vizcaya Argentaria, S.A.
Banco BPI, S.A.
Banco Bradesco S.A.
Banco Comercial Portugues S.A.
Banco Espanol de Credito, S.A. (BANESTO)
Banco Espirito Santo e Comercial de Lisboa, S.A.
Banco Itaú S/A
Bank Austria Creditanstalt AG
Bank BPH S.A.
Bank Hapoalim B.M.
Bank Julius Baer & Co. Ltd.
Bank Leumi le-Israel B.M.
Bank of America N.A.
Bank of Baroda
Bank of China
Bank of Ireland Global Markets
Bank of Montreal
Bank of New York
Bank of Nova Scotia
Bank Vontobel AG
BankThai Public Co., Ltd.
Banque Degroof SA
Barclays
Bayerische Hypo-und Vereinsbank AG
Bayerische Landesbank
The Bear Stearns Companies Inc.
BHF Bank (Berliner Handels-und Frankfurter)
BNP Paribas
BP Plc
Branch Banking and Trust Company (BB&T)
BRE BANK SA
British Energy Power and Energy Trading Limited
Caixa d' Estalvis i Pensions de Barcelona "la Caixa"
Caixa D'Estalvis de Catalunya
Caja de Ahorros Y Monte de Piedad de Madrid
Calyon Corporation
Capitalia Spa
Cargill Financial Services Corporation
Carnegie Investment Bank AB
Ceská sporitelna, a.s.
China Construction Bank
Chinatrust Commercial Bank
Chuo Mitsui Trust & Banking Co. Ltd.
CIBC World Markets Inc.
Citic Industrial Bank
Citigroup
Commerce International Merchant Bankers Berhad
Commerzbank AG
Commonwealth Bank of Australia
Confederacion Espanola de Caja de Ahorros
ConocoPhillips
Constellation Energy Commodities Group, Inc.
Coral Energy, L.P.
Credit Industriel et Commercial (CIC)
Credit Suisse
Daiwa Securities SMBC Co. Ltd.
Danske Bank A/S
DBS BANK LTD
DEPFA BANK plc
Deutsche Bank AG
Dexia Bank Belgium S.A.
DnB NOR Bank ASA
Dresdner Bank AG
DZ BANK AG Deutsche Zentral-Genossenschaftsbank
E.Sun Commercial Bank, Ltd.
EDF Trading Limited
EFG Eurobank S.A.
EFG International
Emporiki Bank of Greece S.A.
Erste Bank der Osterreichischen Sparkassen AG
Essent Energy Trading B.V.
F. van Lanschot Bankiers N.V.
FirstRand Bank Limited
Fortis Bank NV/SA
GASELYS
Generali SGR S.p.A.
Goldman Sachs & Co.
Gulf International Bank (UK) Limited
Hamburger Sparkasse
Hang Seng Bank Limited
HBOS Treasury Services plc
Hess Energy Trading Company, LLC
Hong Leong Bank Berhad
HSBC Holdings plc

ISDA Primary Members

HSH Nordbank AG	PSEG Energy Resources & Trade LLC
Hydro-Quebec	Rabobank Nederland
<i>Hypo Public Finance Bank</i>	Raiffeisen Zentralbank Austria AG
<i>ICICI Bank Limited</i>	Resona Bank, Ltd.
IKB Deutsche Industriebank AG	Royal Bank of Canada
Industrial and Commercial Bank of China	The Royal Bank of Scotland plc
<i>Industrial Bank of Korea</i>	RWE Trading GmbH
ING Bank N.V.	Sal. Oppenheim jr. & Cie KGaA
Intesa Sanpaolo SpA	Sampo Bank plc.
Investec Bank Limited	Samsung Securities Co., Ltd.
Irish Life & Permanent plc	Santander Central Hispano, S.A.
IXIS Corporate and Investment Bank	Schroders plc
J.P. Morgan Chase & Co.	<i>Sempra Energy Trading Corp.</i>
<i>Jefferies Group, Inc</i>	<i>Shanghai Pudong Development Bank</i>
<i>JSC Halyk Bank</i>	Shinko Securities Co., Ltd.
Jyske Bank A/S	Shinsei Bank, Limited
KBC Bank	Shoko Chukin Bank
Koch Supply & Trading, LP	Skandinaviska Enskilda Banken
Komerční banka, a.s.	SMBC Capital Markets, Inc.
<i>Kookmin Bank</i>	Societe Generale
Landesbank Baden-Württemberg	St. George Bank Ltd
Landesbank Berlin AG	The Standard Bank of South Africa
Landesbank Hessen - Thuringen Girozentrale	Standard Chartered Bank
Landesbank Sachsen Girozentrale	STASCO
Lehman Brothers	State Bank of India
Lloyds TSB Bank plc	<i>State Street Bank & Trust Company</i>
Louis Dreyfus Energy Services L.P.	Sumitomo Mitsui Banking Corporation
Macquarie Bank Limited	Sumitomo Trust and Banking Co., Ltd.
Malayan Banking BHD	Suncorp-Metway Limited
Maple Bank GmbH	SunTrust Robinson Humphrey Capital Markets
Mellon Bank, N.A.	Svenska Handelsbanken (Handelsbanken Markets)
Merrill Lynch & Co., Inc.	Swedbank AB
Mitsubishi UFJ Financial Group (MUFG)	Swiss Re Financial Products
Mitsui & Co., Ltd.	Sydbank A/S
<i>Mizrahi Tefahot Bank Ltd.</i>	Taishin International Bank
Mizuho Financial Group	<i>Tokio Marine Financial Solutions, Ltd.</i>
Morgan Stanley & Co. Inc.	The Toronto-Dominion Bank
National Australia Bank Limited	Totsa Total Oil Trading S.A.
National Bank of Canada	Trust Investment Bank
National Bank of Greece	Turkiye Garanti Bankasi A.S.
NATIXIS	UBS AG
Nedbank Group Limited	UniCredit Banca Mobillare S.p.A.
NIBC	United Bank Limited
Nikko Citigroup Limited	<i>United Capital Markets Holdings, Inc.</i>
Nikko Cordial Securities	United Overseas Bank Limited
Nomura Securities Co., Ltd.	Vattenfall A.B.
Nordeutsche Landesbank Girozentrale	VTB Bank Europe plc
Nordea Bank Finland Plc	Wachovia Corporation
Norinchukin Bank	Wells Fargo Bank
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Nykredit Bank A/S	WestLB AG
OKO Osuuspankkien Keskuspankki Oyj	Westpac Banking Corporation
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Oversea-Chinese Banking Corporation Limited	XL America, Inc.
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Prudential Global Funding LLC	

TOTAL PRIMARY MEMBERS: 221

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Nexen Inc.
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Ontario Power Generation Inc.
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TOTAL ISDA MEMBERS: 780

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February 21 - London	September 12 - Boston	October 19 - Hong Kong
May 3 - Stockholm	September 20 - London	

FUNDAMENTALS OF EQUITY DERIVATIVES SEMINAR

March 1 - New York	June 27 - New York
March 6 - London	October 4 - London

FUNDAMENTALS OF COMMODITY DERIVATIVES SEMINAR

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June 13 - Houston	

FUNDAMENTALS OF CREDIT DERIVATIVES SEMINAR

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May 16 - London	November 7 - New York	

FUNDAMENTALS OF ISDA DOCUMENTATION CONFERENCE

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UNDERSTANDING THE ISDA MASTER AGREEMENTS CONFERENCE

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February 22 - London	July 11 - Tokyo	October 20 - Hong Kong
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March 7 - London	October 5 - London

DOCUMENTING AND CONFIRMING CREDIT DERIVATIVES TRANSACTIONS CONFERENCE

May 10 - New York	November 8 - New York
May 17 - London	November 15 - London

ISDA DOCUMENTATION CONFERENCE

June 12 - Paris	September 13 - Boston
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CREDIT DERIVATIVES 2006 CONFERENCE

July 12 - Toronto

CREDIT DERIVATIVES WORKSHOP

January 27 - London	April 3 - London
February 28 - New York	

ISDA Conferences 2006

ISDA SYMPOSIUM® - UNDERSTANDING CREDIT DERIVATIVES ON MORTGAGE BACKED ASSETS AND ITS DOCUMENTATION

January 18 - New York

February 22 - New York

ISDA SYMPOSIUM® - 2006 ISDA FUND DERIVATIVES DEFINITIONS

April 6 - New York

September 14 - London

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October 25 - New York

ISDA SYMPOSIUM® - UNDERSTANDING THE INFLATION DERIVATIVES MARKET AND ITS DOCUMENTATION

May 11 - London

ISDA SYMPOSIUM® - SECURITIES LAW CONSIDERATIONS IN STRUCTURING EQUITY DERIVATIVE TRANSACTIONS

June 2 - New York

ISDA SYMPOSIUM® - SECOND GENERATION CREDIT DERIVATIVES DOCUMENTATION

July 27 - New York

September 8 - New York

ISDA SYMPOSIUM® - CDS ON CDO DOCUMENTATION

August 3 - New York

September 15 - New York

October 12 - London

ISDA ENERGY, COMMODITIES & DEVELOPING PRODUCTS CONFERENCE - FEATURING THE 2005 ISDA COMMODITY DEFINITIONS

June 14 - Houston

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USING THE NEW 2005 ISDA COMMODITY DEFINITIONS CONFERENCE FEATURING REGULATORY COMMODITY ISSUES IN EUROPE

April 7 - London

EQUITY DERIVATIVES DOCUMENTATION WORKSHOP

November 22 - London

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April 4, 5 - London

April 26 - 27 - New York

November 1 - 2 - New York

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June 7 - London

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November 17 - New York

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September 19 - London

October 23 - Sydney

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ISDA 21st ANNUAL GENERAL MEETING

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