

**Confirmation of OTC
Bond Option Transaction**

Heading for Letter¹

[Letterhead of Party A]

[Date]

Bond Option Transaction

[Name and Address of Party B]

Heading for Telex¹

Telex

Date:

To: [Name and Telex Number of Party B]

From: [Party A]

Re: Bond Option Transaction

Dear _____ :

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

[This Confirmation constitutes a “Confirmation” as referred to in, and supplements, forms a part of and is subject to, the ISDA® Master Agreement dated as of [date], as amended and supplemented from time to time (the “Agreement”), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.]¹

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

1. General Terms:

Trade Date: [_____], 199[_____]

Option Style: [American] [European]

Option Type: [Put] [Call]

Seller: [Party A] [Party B]

Buyer: [Party A] [Party B]

Bonds: [Insert full title of the Bonds, including maturity and full legal name of the issuer of the Bonds and any other identification number or reference for the Bonds]

Number of Options: [_____]

Bond Entitlement: [_____] of nominal amount of the Bonds per option.

¹ Include if applicable.

Partial Exercise:	Applicable ²
Option Strike Price:	[]
Premium per Option:	[] ³
Total Premium:	[] ³
Premium Payment Date:	[], or, if that date is not a Currency Business Day, the first following day that is a Currency Business Day.
Seller Business Day:	Any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) ⁴ in []. ⁵
Exchange Business Day:	Any day that is a Seller Business Day and is a trading day on [insert relevant exchange] other than a day on which trading on such exchange is scheduled to close prior to its regular weekday closing time.
Currency Business Day:	Any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in []. ⁶
Local Business Day:	Any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the city specified in the address for notice provided by the recipient.
Calculation Agent:	[], whose determinations and calculations shall be binding in the absence of manifest error. ⁷

2. Procedure for Exercise:

Exercise Period:	[The Expiration Date] ⁸ [Any Seller Business Day from and including [] to and including the Expiration Date] ⁹ between 9:00 a.m. and [4:00 p.m.] ¹⁰ (local time in []). ¹¹
Exercise Date:	The Seller Business Day during the Exercise Period on which the Option is or is deemed to be exercised.
Expiration Date:	[], or, if that date is not an Exchange Business Day, the first following day that is an Exchange Business Day.

² Specify that Partial Exercise is inapplicable if Buyer is not permitted to exercise less than all Options at a time, and specify that multiple exercise is inapplicable if Buyer is permitted to exercise an American style option only once (even if less than all Options are then exercised).

³ The premium may be stated as an amount of currency, in basis points or as a percentage of yield.

⁴ If Seller is not a commercial bank and is located in a city in which commercial bank holidays may differ from local securities exchange holidays, add “and which is a scheduled trading day on local securities exchanges”.

⁵ Specify the city in which Seller is located for the purpose of receiving notices.

⁶ Specify the principal financial center for the relevant currency. If the payment currency for the premium is not the same as the payment currency for the Cash Settlement Amount, the parties may wish to specify a principal financial center in respect of each payment currency.

⁷ If the Calculation Agent is a third party, the parties will want to consider any documentation necessary to confirm its undertaking.

⁸ Include if European style option.

⁹ Include if American style option.

¹⁰ For American style options on certain bonds, such as Gilts, parties may wish to specify that the latest time Buyer may exercise its option on the Expiration Date is different from the latest time Buyer may exercise on any other Seller Business Day during the Exercise Period.

¹¹ Specify city in which Seller is located for purposes of receiving notices.

Notice of Exercise and
Written Confirmation:

Buyer must deliver irrevocable notice to Seller (which may be delivered orally, including by telephone) of its exercise of any right granted pursuant to an Option during the hours specified above on a Seller Business Day in the Exercise Period. [The notice given in respect of an Exercise Date shall specify the number of Options being exercised on that date.]¹² [Buyer may exercise the unexercised number of Options on one or more Seller Business Days during the Exercise Period.]¹³

If the notice of exercise is delivered after [4:00 p.m.] on a Seller Business Day, then that notice will be deemed delivered on the next following Seller Business Day, if any, in the Exercise Period.

If a notice of exercise is delivered orally, Buyer will execute and deliver a written confirmation confirming the substance of that notice and account details within one Seller Business Day of that notice. Failure to provide that written confirmation will not affect the validity of that oral notice.

Limited Right to Confirm
Exercise:

If an Option has not previously been exercised, Seller may, immediately prior to, at or after the last time for exercise on the Expiration Date (the "Expiration Time"), request (which request may be oral, including by telephone) Buyer to confirm its intent to exercise the Option. Buyer will reply immediately to any such request. [If Buyer confirms its intent to exercise at or before the Expiration Time, then Physical Settlement shall be applicable.]¹⁴ If Buyer confirms its intent to exercise after the Expiration Time or if Seller has made no request and Buyer notifies Seller of its intent to exercise after the Expiration Time but not later than 10 Seller Business Days after the Expiration Date, then the Option shall be deemed to have been exercised at the Expiration Time [and, notwithstanding Section 3 below, Cash Settlement shall be deemed to apply.]¹⁵ Otherwise, the Option shall be deemed to have expired at the Expiration Time.

Telephone, Telex and/or
Facsimile Numbers and
Contact Details for Notices:

Seller:

Buyer:

¹² Delete if Partial Exercise is inapplicable.

¹³ Include if the Option is American style and Buyer may exercise more than once.

¹⁴ Include if Physical Settlement is specified to apply.

¹⁵ Include if Physical Settlement is specified to apply.

3. Settlement Terms:

Settlement: [Cash] [Physical]

Settlement Date: []¹⁶ days following the relevant Exercise Date
[, subject to adjustment for a Settlement Disruption Event]¹⁷.

[Physical Settlement Terms:]¹⁸

Physical Settlement: On the Settlement Date, Buyer shall [pay to Seller the Bond Payment]¹⁹ [deliver to Seller the Bonds to be Delivered]²⁰ and Seller shall [deliver to Buyer the Bonds to be Delivered]²¹ [pay to Buyer the Bond Payment]²², in each case, through the Clearance System at the accounts specified below, [on a delivery versus payment basis]²³.

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

Split Tickets²⁴ [The party required to deliver Bonds may divide the Bonds to be Delivered into such number of lots of such size as such party desires to facilitate its delivery obligations. Such party shall notify the party to receive the Bonds of its delivery intentions upon exercise of the Option.]

¹⁶ If cash settled, specify the number of Currency Business Days in which transactions in the relevant currency are settled, and, if settled by physical delivery, specify the number of days as is customary for the Clearance System.

¹⁷ Include if Physical Settlement is specified to apply.

¹⁸ Include if Physical Settlement is specified to apply. Otherwise, include only Cash Settlement Terms.

¹⁹ Include if Call Option.

²⁰ Include if Put Option.

²¹ Include if Call Option.

²² Include if Put Option.

²³ If it is agreed that settlement will be other than on the basis of delivery vs. payment, specify the relevant details.

²⁴ Delete this paragraph if “split ticket” settlement is not acceptable to the parties.

Bonds to be Delivered:	The nominal amount of Bonds equal to the number of Options exercised on the relevant Exercise Date multiplied by the Bond Entitlement.
Bond Payment:	The product of (a) the sum of (i) the Option Strike Price [multiplied by the Bond Entitlement] ²⁵ plus (ii) accrued interest, if any, on the Bond Entitlement computed in accordance with customary trade practices employed with respect to the Bonds multiplied by (b) the number of Options exercised on the relevant Exercise Date.
Clearance System:	[]
Settlement Disruption Event:	An event beyond the control of the parties as a result of which the Clearance System cannot clear the transfer of the Bonds.
Failure to Deliver:	Failure by a party to deliver, when due, Bonds under this Option shall constitute an Event of Default only if on or before the third Local Business Day after notice of the failure is given to the party it does not (a) remedy such failure or (b) provide such security or such other assurances to the other party as such other party, acting in good faith but in its sole discretion, deems adequate.
Buy-in:	In addition to any requirement that a party provide security or assurances as a result of its failure to deliver the Bonds to be Delivered, the other party may at any time, and not later than 45 calendar days after such failure (absent an Event of Default) shall endeavor to, exercise a buyer's right to buy-in such Bonds in accordance with Section 450 of the International Securities Market Association's Rules and Recommendations, as amended from time to time. ²⁶ Any buy-in settlement shall be settled without any delay and, in any event, not later than [] ²⁷ Currency Business Days following the date of the buy-in.

²⁵ Include if the Option Strike Price is stated as a percentage of the nominal value of the Bonds (e.g., 103% of par), but delete if the Option Strike Price is stated as an amount in the relevant currency. If the Option Strike Price is stated as a yield, the formula should be adjusted accordingly.

²⁶ If a party to the Transaction is not an ISMA member or if the underlying bonds are not "international securities", further consideration should be given to the appropriateness of the Section 450 procedures. In such circumstances, the parties may, among other things, (i) choose to disregard any requirements that copies of notices relating to the buy-in procedures be sent to the ISMA secretariat and (ii) agree on alternative qualifications for selecting a buy-in agent.

²⁷ Specify the number of Currency Business Days in which transactions in the relevant currency are settled.

Cash Settlement Terms:

Cash Settlement:	[If under the Limited Right to Confirm Exercise, any Option is deemed to have been exercised and Cash Settlement applies,] ²⁸ Seller shall pay to Buyer the Cash Settlement Amount, if any, on the Settlement Date for all Options exercised or deemed exercised.
Cash Settlement Amount:	An amount, as calculated by the Calculation Agent, equal to the number of Options exercised on the relevant Exercise Date multiplied by the Strike Price Differential.
Strike Price Differential:	An amount equal to the greater of (a) the excess of [the Option Strike Price [multiplied by the Bond Entitlement] ²⁹ over the Spot Price] ³⁰ [the Spot Price over the Option Strike Price [multiplied by the Bond Entitlement] ³¹] ³² and (b) zero.
Spot Price:	The price as of [] ³³ on the relevant Exercise Date (or, if that date is not an Exchange Business Day, the next following Exchange Business Day) for Bonds equal in amount to the Bond Entitlement, as determined in good faith by the Calculation Agent.
Conversion: ³⁴	If the issuer of the Bonds irreversibly converts the Bonds into other securities, this Transaction shall continue as set forth in this Confirmation except that (a) the “Bonds” shall mean such other securities and (b) the Calculation Agent shall, in good faith, adjust the Option Strike Price, the Number of Options and/or the Bond Entitlement as the Calculation Agent determines appropriate to preserve the theoretical value of this Transaction to the parties immediately prior to such conversion.
Dispute Resolution:	If a party objects to a determination by the Calculation Agent of the Spot Price or an adjustment in respect of a Conversion within two Exchange Business Days of notice of that determination, then Buyer and Seller shall negotiate in good faith to agree on an independent third party that shall determine the Spot Price or that adjustment, as the case may be, and, if they cannot so agree within three Exchange Business Days, each of Buyer and Seller shall promptly choose an independent third party and instruct the parties so chosen to agree on another independent third party that shall determine the Spot Price or that adjustment, as the case may be. The determination of an independent third party shall be binding in the absence of manifest error. The costs of such independent third party shall be borne equally by Buyer and Seller.

²⁸ Include if Physical Settlement is specified to apply.

²⁹ Delete if the Option Strike Price is stated as an amount in the relevant currency.

³⁰ Include if Put Option.

³¹ Delete if the Option Strike Price is stated as an amount in the relevant currency.

³² Include if Call Option.

³³ Describe the relevant fixing or otherwise specify a valuation time.

³⁴ If the issuer of the Bonds is not a government or a governmental entity, the parties may wish to consider providing for adjustments in respect of the merger, liquidation or nationalization of the issuer.

4. Account Details:

Account Details of Buyer:

Account Details of Seller:

5. Other Terms:³⁵

[Additional Representation and Agreement:]³⁶

[A party required to deliver Bonds represents and agrees that it will convey good title to the Bonds to be Delivered, free and clear of any lien, charge, claim or encumbrance.]

[Transfer:]³⁷

[Neither party may transfer any Option or any interest in or under this Transaction without the prior written consent of the non-transferring party and any purported transfer without such consent will be void.]

Margin:

[Applicable]³⁸ [Inapplicable]

This Confirmation will be governed by and construed in accordance with the laws of [] [(without reference to choice of law doctrine)].³⁹

³⁵ Consider whether any additions or deletions relating to any applicable jurisdiction or regulatory, tax, accounting, securities exchange or other requirements should be made in this Confirmation if these are not addressed in a related master agreement. For an indication of further issues that the parties may wish to consider when documenting transactions that settle by physical delivery under a 1992 ISDA Master Agreement, see Section VI of the *User's Guide to the 1992 ISDA Master Agreements*, 1993 Edition (as published by the International Swap Dealers Association, Inc.).

³⁶ Include if Physical Settlement is specified to apply.

³⁷ Delete if this Confirmation is part of an ISDA Master Agreement.

³⁸ Parties should specify the margin provisions, if any, that will apply to the Option.

³⁹ Delete if this Confirmation is part of an ISDA Master Agreement.

Closing for Letter⁴⁰

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

Yours sincerely,

[PARTY A]

By: _____
Name:
Title:

Confirmed as of the
date first above written:

[PARTY B]

By: _____
Name:
Title:

Closing for Telex⁴⁰

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

“Re:

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

Yours sincerely,

[PARTY A]

By: _____
Name:
Title:

⁴⁰ Include if applicable.