

# ISDA<sup>®</sup>

International Swaps and Derivatives Association, Inc.

## Disclosure Annex for Foreign Exchange Transactions

This Annex supplements and should be read in conjunction with the General Disclosure Statement. NOTHING IN THIS ANNEX AMENDS OR SUPERSEDES THE EXPRESS TERMS OF ANY TRANSACTION BETWEEN YOU AND US OR ANY RELATED GOVERNING DOCUMENTATION. Accordingly, descriptions in this Annex of the operation of Foreign Exchange Transactions (as defined below) and the consequences of various events are in all cases subject to the actual terms of a Foreign Exchange Transaction executed between you and us and its governing documentation (whether or not such qualification is expressly stated).

We refer to Transactions in which the Underliers are foreign currencies and involve, or at the option of either party may involve, the exchange of one or more currencies against one or more other currencies or settlement in a single currency based on the rates of exchange between one or more currency pairs as “**Foreign Exchange Transactions.**” The terms of a Foreign Exchange Transaction may incorporate standard definitions published by industry bodies, annexes and supplements thereto, master confirmations and other market standard terms, which may in turn be amended or customized pursuant to the terms of the Foreign Exchange Transaction and its governing documentation. Before entering into a Foreign Exchange Transaction, you should obtain and review carefully any such materials incorporated by reference as their content could materially affect your rights and obligations under the Foreign Exchange Transaction, its value and its appropriateness for your particular objectives.

One of the most common types of Foreign Exchange Transaction is the foreign exchange forward contract (“**FX Forward**”), which is an agreement to buy one currency against the delivery of another currency at a rate set on the trade date for settlement on a specified date in the future. Under a deliverable FX Forward, the Transaction terms provide for an exchange of payments in each of the two currencies on the settlement date. Under a non-deliverable FX Forward (“**NDF**”), the Transaction terms provide for the payment of a net cash settlement amount on the settlement date in lieu of delivery of the notional amounts of the bought currency and the sold currency. The cash settlement amount is determined by converting the notional amount of one of the currencies (the “reference currency”) into the other currency (the “settlement currency”) at a spot foreign exchange rate that is observed on a pre-agreed pricing source or determined using another pre-agreed method (such source or method, the “settlement rate option”) on a date (“valuation date”) prior to the settlement date, and netting the currency amounts so that a single net payment in the settlement currency is made on the settlement date by the party owing the excess. In some NDFs, each of the bought currency and the sold currency is converted into a third currency that serves as the settlement currency. In either case, under an NDF no payment or account transfer takes place in the reference currency.

Subject to any express agreement in the documentation governing a barrier option between us, we may, in our discretion, decide to engage in hedging activities with respect to the barrier option. Such activities may include buying and selling, on a dynamic basis, the underlying currency in the spot market or entering into derivatives on such currency. Our hedging strategy may entail unwinding our hedge when a barrier event occurs under your option. We may anticipate the barrier event and begin unwinding our hedge before the barrier event occurs, or our hedging strategy may require greater and more frequent dynamic adjustments to our hedge as market prices approach the barrier price. Unwinding or adjusting the hedge typically consists of buying or selling a quantity of the currency underlying the barrier option, or terminating or entering into derivatives positions with market counterparties. This activity may affect the likelihood of the barrier event occurring or not occurring. In addition, currency or currency derivative transactions that we execute in other capacities (such as those described in Section IV.A.2 – “Trade for our own account or the account of customers” – of the General Disclosure Statement) may affect the probability that a barrier event will occur.

### **Complex or Exotic FX Options and other Structured FX Products**

There is a wide range of complex, exotic or structured Foreign Exchange Transactions which contain features not specifically described above. Such features may accentuate the risks described elsewhere in this Annex and in the General Disclosure Statement, particularly in Section III – “Material Risks”. Many of these products have option-like features. Please refer to Section III.J – “Option Transactions present special considerations” – of the General Disclosure Statement, in particular the discussion under the subheading “Complex or Exotic Options”.