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OTC Option Transactions—U.S. Treasury Securities

Master Dealer Agreement

I. Description of Option Contracts

- 1. Applicability.** Over-The-Counter (“OTC”) Options (“Option Contracts”) are each written on underlying securities with an aggregate face value of \$250,000 or more, which shall in each case be direct obligations of the United States Government (“U.S. Treasury Securities”) of the type referred to in Rule 3a12-7 promulgated by the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 (the “1934 Act”).
- 2. Confirmation of Options Contracts.** Each Option Contract shall be confirmed by written confirmation (a “Confirmation”) issued by the writer to the holder. The writer shall send such Confirmation to the holder within one Business Day of entering into an Option Contract. Each Confirmation shall identify the writer and the holder and set forth (i) the identity and the par value of the underlying U.S. Treasury Securities that are subject to the Option Contract, (ii) the exercise price; (iii) the expiration date (which shall be a Business Day) (the “Expiration Date”), (iv) the premium for the Option Contract, (v) whether the Option Contract is a call or a put, (vi) whether the Option Contract is an American Option or a European Option, (vii) any other trading terms applicable to an Option Contract that have been agreed to by the parties, and (viii) any other terms not inconsistent with this Agreement. Each Confirmation, together with this Agreement, shall conclusively evidence the terms of the Option Contract covered thereby unless the Confirmation is objected to in writing by the holder or unless a corrected Confirmation is sent by the writer, in either case within five Business Days of the day on which the Option Contract is entered into.
- 3. Payment of Premium.** The premium shall be due in immediately available funds on the Business Day following the day on which an Option Contract is entered into.
- 4. Exercise of Options Contracts.** An “American Option” is an Option Contract which is exercisable between 9:00 A.M. and 4:00 P.M., New York time, on any Business Day up to and including its Expiration Date. A “European Option” is an Option Contract which is exercisable between 9:00 A.M. and 4:00 P.M., New York time, only on its Expiration Date. Exercise shall in either case be accomplished by the holder advising the writer by telephone of such exercise. In the case of an American Option, if the notice of exercise is received by the writer after 4:00 P.M., New York time, on any Business Day prior to its Expiration Date, such notice of exercise shall be deemed to be given on the opening of business on the next Business Day. In the case of a European Option, notice of exercise may be given to the writer prior to the Expiration Date, but such notice shall be irrevocable once given and such exercise shall be effective only as of the Expiration Date.
- 5. Automatic Exercise.** Unless otherwise instructed by the holder prior to 4:00 P.M., New York time, on its Expiration Date, and subject to the remedies available under paragraph IV(2) hereof if an Event of Default has occurred, an Option Contract shall be deemed to be automatically exercised if at 4:00 P.M., New York time, on such date: (a) its underlying securities have less than three years to maturity and it is at least 1/4 point in-the-money; (b) its under-

lying securities have at least three but less than ten years to maturity and it is at least 1/2 point in-the-money; or (c) its underlying securities have at least ten years to maturity and it is at least 1 point in-the-money. For purposes of determining the "in-the-money" amount of an Option Contract under this paragraph I(5), the market value of its underlying securities shall mean the arithmetic median of the bid quotations, in the case of a call Option Contract, and asked quotations, in the case of a put Option Contract, for the underlying securities representing at least \$1 million in aggregate face amount, as reported at 4:00 P.M., New York time, on the Expiration Date by inter-dealer brokers maintaining time-dated screens or, if no quotations for such securities are available, the arithmetic median of such bid quotations, in the case of a call Option Contract, and asked quotations, in the case of a put Option Contract, for such other securities representing at least \$1 million in aggregate face amount as provide a basis from which to extrapolate the value of the underlying securities, reported at the time and in the manner stated above. All determinations and calculations under the preceding sentence shall be made in a manner and by methods that are commercially reasonable in the inter-dealer market for the underlying securities. Notwithstanding the foregoing, an automatic exercise of an Option Contract under this paragraph I(5) shall have no force or effect unless at least one party thereto notifies the other, by telephone or in writing, of such automatic exercise by 10:00 A.M., New York time, on the Business Day following such Contract's Expiration Date.

- 6. Settlement.** If an Option Contract is exercised, all transfers of underlying securities and payments therefor shall settle on a delivery versus payment basis on the first Business Day following the exercise date. The method of settlement shall be the method that, in accordance with customary trade practices, is employed with respect to the underlying securities. All payments shall be made in immediately available funds. As used herein with respect to U.S. Treasury Securities, "transfer" is intended to have the same meaning as when used in Section 8-313 of the New York Uniform Commercial Code or, where applicable, in any federal regulation governing transfers of such securities.

II. Performance Assurance and Right to Further Assurances

1. The parties agree to provide performance assurance as margin to secure their respective obligations hereunder and under any Option Contract in accordance with the Annex (Performance Assurance Provisions), which is attached hereto and made a part hereof.
2. If a party has reasonable cause to believe that the other party will not meet one or more of its obligations under this Agreement or under any Option Contract, it may demand reasonable assurances of performance from the other party by giving oral or written notice reasonably calculated to provide actual notice.

III. Representations

Each party represents and warrants continually throughout the term hereof that: (1) it has duly executed, and has all requisite power, authority and approvals to enter into, and to perform its obligations under, this Agreement; (2) this Agreement is, and each Option Contract will be, its legal, valid and binding obligation; (3) the execution and implementation of this Agreement will not cause it to violate or contravene any law, regulation or court or governmental order by which it is bound or to which it is subject; (4) it will have and deliver good title, free and clear of all liens, claims and encumbrances, to any underlying securities it is required to transfer upon exer-

cise of any Option Contract it has written; and (5) it is either (a) a government securities dealer registered with the SEC under Section 15C(a)(1)(A) of the 1934 Act or (b) a registered dealer or a financial institution that has filed with the appropriate regulatory agency written notice that it is a government securities dealer under Section 15C(a)(1)(B) of the 1934 Act.

IV. Default

1. Each of the following shall constitute an Event of Default under this Agreement:

- (i) if either party hereto (the "Defaulting Party") fails, when due, to transfer any underlying securities or to make any payment required hereunder or under any Option Contract or breaches any of its other obligations hereunder or under any Option Contract in a material respect, or if any representation made by the Defaulting Party shall have been incorrect or untrue in a material respect when made, and such default is not cured within one Business Day after written notice thereof from the other party hereto (the "Non-Defaulting Party");
- (ii) if the Defaulting Party repudiates any of its obligations hereunder or under any Option Contract;
- (iii) the commencement by the Defaulting Party as debtor of any case or proceeding under any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar laws, or a request by such party for the appointment of a receiver, liquidator, trustee, custodian or similar official for such party or any substantial portion of its property; or the commencement of any such case or proceeding against such party seeking such an appointment, or the filing against such party of an application for a protective decree under the Securities Investor Protection Act of 1970, which (A) is consented to or not timely contested by such party, (B) results in the entry of an order for relief, such an appointment, the issuance of such a protective decree or the entry of an order having a similar effect, or (C) is not dismissed within 15 days; or the making by the Defaulting Party of a general assignment for the benefit of creditors; or the admission in writing by the Defaulting Party of its inability to pay its debts as they become due; or
- (iv) if the Defaulting Party does not provide reasonable assurances of performance within the time specified by the Non-Defaulting Party pursuant to paragraph II(2) hereof.

The Non-Defaulting Party may, in its sole discretion, waive or permit the party which has committed an Event of Default to cure such default.

2. If an Event of Default occurs then, without prejudice to any other rights under this Agreement or at law, the Non-Defaulting Party shall have, in addition to all applicable rights and remedies under applicable law, the right, without notice or advertisement of any kind whatsoever, to take one or more of the following actions:

- (i) accelerate and treat any of the Defaulting Party's obligations hereunder and under any Option Contract as due;

- (ii) suspend any payment and any transfers of any securities required to be made to the Defaulting Party under this Agreement and any Option Contract not liquidated pursuant to this Agreement;
 - (iii) liquidate from time to time one or more Option Contracts by (i) closing out each Option Contract being liquidated so that the same is cancelled immediately and establish a settlement payment therefor by determining an amount equal to (x) the Non-Defaulting Party's then current open market offer for an equivalent Option Contract if the Option Contract being liquidated was written by the Defaulting Party or (y) the Non-Defaulting Party's then current open market bid for an equivalent Option Contract if the Option Contract being liquidated was written by the Non-Defaulting Party, and (ii) netting such settlement payments to calculate a single liquidated amount that is due by one party to the other (the "Net Settlement Payment"), subject to the right of set off provided herein;
 - (iv) liquidate all collateral held as performance assurance by selling such performance assurance to others, or in lieu of actually selling to others, the Non-Defaulting Party may deem itself to have purchased some or all of the performance assurance at the price or prices obtainable therefor as determined in accordance with paragraph I(5) hereof;
 - (v) if the Defaulting Party fails to transfer any underlying securities when due, to borrow or purchase such securities in order to transfer such securities;
 - (vi) set off the sum of (i) any Net Settlement Payment owed to the Defaulting Party and (ii) the proceeds of the liquidation of collateral held as performance assurance against the sum of (iii) any Net Settlement Payment owed to the Non-Defaulting Party and (iv) the Liquidation Expenses (as defined in paragraph IV(3) hereof); and
 - (vii) take any other action it deems necessary in the reasonable exercise of its discretion and any other action available to it at law or in equity.
3. In addition to any other amounts it may owe or be liable for hereunder or under any Option Contract, the Defaulting Party shall be liable to the Non-Defaulting Party for and, for purposes of paragraph IV(2)(vi) hereof, "Liquidation Expenses" shall include, any and all costs, expenses, damages, losses and liabilities incurred by the Non-Defaulting Party in connection with any Event of Default or the exercise of any of its rights under paragraph IV, including, without limitation: (i) all transaction costs, costs of collection and reasonable attorney's fees incurred by the Non-Defaulting Party in connection with the liquidation of one or more Options Contracts, (ii) all reasonable attorney's fees incurred in connection with the enforcement of any rights or remedies hereunder or any Option Contract, (iii) market losses and reasonable expenses incurred in liquidating any position that is attributable to any exercised Option Contract and (iv) all losses sustained in borrowing or purchasing any underlying securities which are not transferred when due (including any premium paid as a result thereof).

V. Miscellaneous

1. Neither party may assign any of its rights or delegate any of its obligations hereunder or under any Option Contract (whether by consolidation, merger, operation of law or otherwise) without the other party's prior written consent, except that either party may without

consent assign its rights, but may not delegate any of its obligations, under this Agreement or an Option Contract to an “affiliate” (as such term is defined under the 1934 Act) organized in the United States under state or federal law, provided that such affiliate satisfies each of the representations set forth in paragraph III hereof. Subject to the foregoing, this Agreement shall inure to the benefit of each party’s successors by consolidation, merger or otherwise and permitted assigns. No Option Contract will be registered under the Securities Act of 1933 and in no event may an Option Contract be transferred in violation thereof.

2. Either party may take any action pursuant to this Agreement or any Option Contract on the basis of written or oral instructions which it reasonably believes originated from a person with actual or apparent authority to act for the other party hereto.
3. If any payment hereunder or under any Option Contract (other than a payment of performance assurance) is not made when due, the party that is to receive such payment shall be entitled to interest, on demand, on such unpaid amount for the period the same remains unpaid, and such interest shall accrue daily at a rate equal to the Federal funds rate as then in effect as determined from generally recognized sources (but not in excess of the maximum legal rate under applicable law).
4. All rights and remedies of either party hereto arising under this Agreement or under any Option Contract as amended from time to time hereunder are cumulative and not exclusive of any other rights or remedies which such party may have at law or otherwise.
5. Except for the exercise of an Option Contract pursuant to paragraph I hereof, no failure on the part of either party hereto to exercise, and no delay in exercising, any contractual right hereunder or under any Option Contract shall operate as a waiver thereof, nor shall any single or partial exercise by either party hereto of any right preclude any other or future exercise thereof or the exercise of any other right.
6. This Agreement governs all Option Contracts between the parties hereto and supersedes all prior agreements and understandings (whether written or oral) between the parties with respect to OTC Options on U.S. Treasury Securities. No modification or waiver of any provision hereof nor any consent to any departure herefrom by either party shall be effective unless the same shall be in writing and signed by the parties hereto, and then any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.
7. Except where oral notice is expressly permitted by this Agreement, any notice or Confirmation by either party hereto shall be in writing and sent to the address of the other party listed on the signature page hereto (or to such changed address as such party may indicate by written notice to the other party) and shall be deemed to have been received: (i) on the day sent (or if such day is not a Business Day, then on the next Business Day) if delivered by hand or given by telex or other telecommunication device capable of transmitting or creating a written record, (ii) on the third Business Day after the day sent if given by postage prepaid first class mail, and (iii) on the earlier receipt, if sent by both telex or other telecommunication device and mailed (except that any notice of change of address shall only be effective upon actual receipt).

- 8.** The term “Business Day” as used herein means any day on which the Federal Reserve Bank of New York and the government securities markets are open for business.
- 9.** All Option Contracts are entered into by each party hereto as principal for its own account for investment (including hedging) purposes only. Neither party hereto shall be obligated to enter into Options Contracts with the other party.
- 10.** Each party acknowledges that it has entered into this Agreement and will enter into each Option Contract hereunder, in consideration of and in reliance upon the fact that all transactions hereunder constitute a single business and contractual relationship and that each has been entered into in consideration of the other transaction. Accordingly, each party agrees (i) to perform all of its obligations in respect of each transaction hereunder, and that a default in the performance of any such obligations shall constitute a default by it in respect of all transactions hereunder, (ii) that each of them shall be entitled to set off claims and apply property held by them in respect of any transaction against obligations owing to them in respect of any other transactions hereunder and (iii) that payments, deliveries and other transfers made by either of them in respect of any transaction shall be deemed to have been made in consideration of payments, deliveries and other transfers in respect of any other transactions hereunder, and the obligations to make any such payments, deliveries and other transfers may be applied against each other and netted.
- 11.** This Agreement and all Option Contracts hereunder shall be governed by and construed in accordance with the internal laws of the State of New York, without giving effect to principles of conflicts of law.
- 12.** If any part of this Agreement shall be held to be void or unenforceable, it shall not affect any other part of this Agreement.
- 13.** Except as to outstanding Option Contracts which shall continue to be governed by this Agreement, either party hereto may cancel this Agreement at any time on three Business Days’ prior written notice to the other party.
- 14.** Any controversy between the parties hereto arising out of or relating to this Agreement or any Option Contract or the breach hereof or thereof shall be settled by arbitration in New York City. If both parties are members of the National Association of Securities Dealers, Inc. (the “NASD”), then such arbitration shall be before three arbitrators in accordance with the rules then in effect of the NASD. If either party is not a member of the NASD, then such arbitration shall be before three arbitrators in accordance with the rules of the American Association of Arbitration. In any arbitration hereunder, the arbitrators shall in no way modify the rights or obligations of the parties to, or modify or reform any term of, this Agreement or any Option Contract. The award of the arbitrators shall be final. The parties hereto consent to the jurisdiction of the federal and state courts located in New York City to enter judgment upon any such award, and agree that process in any such proceeding may be served by registered mail.

VI.Intent

The parties hereto recognize and intend that:

- (a) Each Option Contract is a "securities contract" as defined in 11 U.S.C. Section 101 et. seq. (the "Bankruptcy Code").
- (b) A party's right to liquidate Option Contracts and to exercise any other remedies upon the occurrence of an Event of Default constitutes a "contractual right" as defined in the Bankruptcy Code.
- (c) Any cash, securities or other property provided as performance assurance shall constitute "margin payments" as defined in the Bankruptcy Code.
- (d) All payments for, under, or in connection with Option Contracts, all payments for the underlying securities following the exercise of an Option Contract, and the transfer of any underlying securities shall constitute "settlement payments" as defined in the Bankruptcy Code.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the _____ day of _____, _____.

Name of Dealer

By: _____

Print Name: _____

Title: _____

Address: _____

Telephone No.: _____

Telex No.: _____

Answerback: _____

Fax No.: _____

Name of Dealer

By: _____

Print Name: _____

Title: _____

Address: _____

Telephone No.: _____

Telex No.: _____

Answerback: _____

Fax No.: _____

Annex

(Performance Assurance Provisions) to Dealer Agreement OTC Options Transactions—U.S. Treasury Securities

The parties shall provide performance assurance as margin to secure their respective obligations under outstanding Option Contracts in accordance with the following provisions:

I. Definitions.

1. “Market Value” of any U.S. Treasury Security as of any day shall mean the value of such security based on the price therefor as reported in the Federal Reserve Bank of New York Composite 3:30 P.M. Quotations for U.S. Government Securities on such day if so quoted and, if not so quoted, then as determined by the holder of the Option Contract in the same manner set forth in paragraph I(5) of the Agreement to which this Annex relates. “Market Value” of any other security as of any day shall mean the value of such security based on the closing price therefor as reasonably determined by the party entitled to hold such security.
2. “Exercise Value” of an Option Contract as of any day shall equal the product of (a) the exercise price (expressed as a percentage) specified in such Contract and (b) the face amount of the underlying security covered by such Contract.
3. “In-the-money” shall mean (a) for an Option Contract that is a call, the excess (if any) of the Market Value of its underlying securities over its Exercise Value and (b) for an Option Contract that is a put, the excess (if any) of its Exercise Value over the Market Value of its underlying securities.
4. “Out-of-the-money” shall mean (a) for an Option Contract that is a call, the excess (if any) of its Exercise Value over the Market Value of its underlying securities and (b) for an Option Contract that is a put, the excess (if any) of the Market Value of its underlying securities over its Exercise Value.
5. For each Option Contract, the writer’s “Performance Assurance Requirement” as of any day shall equal (a) _____ percent (%) of the face amount of such Contract’s underlying securities, plus (b) such Contract’s in-the-money amount on such day (if any) or minus (c) such Contract’s out-of-the-money amount on such day (if any); provided that in no event shall the Performance Assurance Requirement for an Option Contract be less than zero.
6. A party’s “Aggregate Performance Assurance Requirement” as of any day shall equal the sum of the Performance Assurance Requirements on such day for all outstanding Option Contracts written by such party under this Agreement.

II. Performance Assurance

1. If, at the close of business on any Business Day, the difference between the parties’ Aggregate Performance Assurance Requirements exceeds \$ _____, then, if demanded, performance assurance shall be provided or returned so that the party having the smaller Aggregate Performance Assurance Requirement shall hold performance assurance, in the aggregate, equal to the amount of such excess and the other party shall hold no perfor-

mance assurance; provided that all payments and returns of performance assurance shall be rounded to the nearest integral multiple of \$ _____ (and rounded up, if exactly between two such multiples). Subject to the remedies available to the Non-Defaulting Party under paragraph IV(2) of the Agreement, if at the close of business on any Business Day no Option Contracts are outstanding or the difference between the parties' Aggregate Performance Assurance Requirements equals or is less than \$ _____, all performance assurance held by either party shall be returned to the other party.

2. Performance assurance provided hereunder shall be in cash, U.S. Treasury bills valued at market and/or any other form of performance assurance or method of providing performance assurance agreed to by the parties (collectively "Collateral"). To secure its obligations hereunder and under outstanding Option Contracts, each party grants to the other party a continuing first and senior security interest in and lien on all Collateral held by such other party. Performance assurance that is demanded by 10:00 A.M., New York time, on a Business Day shall be due by the close of business on the same Business Day and performance assurance that is demanded after 10:00 A.M., New York time, on a Business Day shall be due by the close of business on the next succeeding Business Day. Where securities provided as performance assurance are transferable by book-entry, such method shall be used to effect transfer hereunder. Where securities provided as performance assurance are not transferable by book-entry, such securities may be delivered in physical form.
3. Any payment or other distribution in respect of securities being held as performance assurance that is received by the party holding such securities shall be remitted or credited to the account of the party that provided such securities within one Business Day after such payment or other distribution is received by the party holding such securities; provided, however, that such remittance shall not be required if, after such remittance, the party providing such securities would not be in compliance with paragraph II(1) of this Annex. A party that has provided Collateral hereunder may, on any Business Day, substitute for all or part of such Collateral other Collateral, provided that the market value of such substituted Collateral is at least equal to that of the Collateral being substituted.
4. Subject to paragraph II(3) of this Annex and to the extent permitted by law, either party hereto may lend, pledge, repledge, hypothecate, rehypothecate or otherwise use for its own purposes any cash, securities or other property which it receives as Collateral and nothing herein shall obligate either party to segregate any Collateral that it holds.

Name of Dealer

Name of Dealer

By: _____

By: _____

Revision to Annex

(Performance Assurance Provisions) to Master Dealer Agreement Over-the-Counter Option Transactions—U.S. Treasury Securities

Paragraph II (1) is deleted in its entirety and replaced with the following paragraph:

1. At the close of business on any Business Day on which the difference between the parties' Aggregate Performance Assurance Requirements exceeds \$_____ the parties may begin demanding performance assurance from each other. On that day and thereafter, if demanded, performance assurance shall be provided or returned so that the party having the smaller Aggregate Performance Assurance Requirement shall hold performance assurance, in the aggregate, equal to the amount of such difference and the other party shall hold no performance assurance; provided that all payments and returns of performance assurance shall be rounded to the nearest integral multiple of \$_____ (and rounded up, if exactly between two such multiples). Subject to the remedies available to the Non-Defaulting Party under paragraph IV(2) of the agreement, if at the close of business on any Business Day no Option Contracts are outstanding or the difference between the parties' Aggregate Performance Assurance Requirements equals or is less than \$_____, all performance assurance held by either party shall be returned to the other party.

Name of Dealer

Name of Dealer

By: _____

By: _____

Information Sheet

Over-the-Counter Option Transactions

To: _____

Attention: _____

RE: Trading Information

Authorized Traders:

Telephone:

Back Office Contact and Back-Up:

Telephone:

Telex Number: _____

Panafax Number: _____

Telephone Number: _____

Tax I.D. Number: _____

Mailing Address: _____

All payments of premium, cash provided as performance assurance and any other payments must be made by transfer of immediately available funds to:

Bank: _____

ABA #: _____

City: _____

Account #: _____

To the credit of: _____

All deliveries of securities provided as performance assurance and U.S. Treasury securities underlying an option contract must be made as specified below:

Institution: _____

City: _____

Delivery Instructions: _____

Contact Person: _____

Telephone: _____

[Name of Party]

By: _____

Title: _____

Date: _____



40 Broad Street
New York, NY 10004-2373
Telephone 212.440.9400
Fax 212.440.5260
www.bondmarkets.com