**Principles and Practices for Wholesale Financial Market Transactions**

Table of Contents

Introduction

1. [Purpose of Principles and Practices](http://www.sifma.org/services/stdforms/wholesaleFinMkt.html#1):

* 1.1 Applicability
* 1.2 Nature of Principles
* 1.3 Supplementary Nature of Principles

2. [Participants - Financial Resources](http://www.sifma.org/services/stdforms/wholesaleFinMkt.html#2):

* 2.1 Financial Resources

3. [Participants - Policies and Procedures](http://www.sifma.org/services/stdforms/wholesaleFinMkt.html#3):

* 3.1 Policies and Procedures
* 3.2 Supervision and Training of Employees
* 3.3 Control and Compliance
* 3.4 Risk Management
* 3.5 Independent Risk Monitoring
* 3.6 Valuation
* 3.6.1 Valuation of Transactions
* 3.6.2 Obtaining External Valuations
* 3.6.3 Evaluating External Valuations
* 3.6.4 Providing Valuations to Other Participants
* 3.7 Credit Risk
* 3.8 Legal Capacity and Authority to Transact

4. [Relationships Between Participants](http://www.sifma.org/services/stdforms/wholesaleFinMkt.html#4):

* 4.1 Fair Dealing and Professional Standards
* 4.2 Relationships with Counterparties
* 4.2.1 Decision-Making Capability
* 4.2.2 Reliance on Investment Advice
* 4.2.3 Transaction Information
* 4.2.4 Other Activities of Counterparties
* 4.2.5 Role as Agent or Broker
* 4.3 Confidentiality

5. [Considerations Relating To Relationships Between Participants](http://www.sifma.org/services/stdforms/wholesaleFinMkt.html#5):

* 5.1 Introduction
* 5.2 Counterparty Decision-Making Capability
* 5.3 Notifying Counterparties of Nature of Relationship
* 5.4 Providing Additional Information to Counterparties

6. [Mechanics of Transactions](http://www.sifma.org/services/stdforms/wholesaleFinMkt.html#6):

* 6.1 When Transactions are Binding
* 6.2 Confirmations
* 6.3 Payment and Settlement Instructions
* 6.4 Documentation
* 6.5 Complaints and Settlement of Differences

7. [Standards for Transactions](http://www.sifma.org/services/stdforms/wholesaleFinMkt.html#7):

* 7.1 Misuse of Market Terminology and Conventions
* 7.2 Manipulative Practices
* 7.3 Bribes and Outside Fees and Commissions
* 7.4 Rumors and False Information
* 7.5 Money Laundering and Other Criminal Activities

Introduction

These Principles and Practices for Wholesale Financial Market Transactions are the result of a joint effort by several groups that represent participants in the over-the-counter financial markets. These Principles were prepared in order to confirm the relationship between Participants and to articulate a set of best practices with respect to over-the-counter financial markets transactions between Participants.

Representatives of the Emerging Markets Traders Association, the Foreign Exchange Committee of the Federal Reserve Bank of New York, the International Swaps and Derivatives Association, the New York Clearing House Association, the Public Securities Association and the Securities Industry Association participated in the preparation of the Principles. The preparation of the Principles was coordinated by the Federal Reserve Bank of New York.

1. Purpose of Principles and Practices

1.1 Applicability

These Principles and Practices for Wholesale Financial Market Transactions (the "Principles") are intended to provide guidance for the conduct of wholesale transactions in the over-the-counter financial markets between Participants ("Transactions").

"Participant" means any corporation, partnership, trust, government or other entity that engages regularly in one or more types of Transactions. The term "counterparty" as used in the Principles means a Participant that is the other party to a Transaction with a Participant.

The Principles reflect principles and practices in the United States of America and may not reflect principles and practices in other countries. 1.2 Nature of Principles

The Principles confirm the arm's-length nature of Transactions and describe the assumptions that Participants may make about each other. The Principles also articulate a set of best practices that Participants should aspire to achieve in connection with their Transactions. It is intended that the Principles (especially those contained in Section 3) will continue to evolve over time as business practices change. The Principles do not create any legally enforceable obligations, duties, rights or liabilities.

Adherence to the Principles is strictly voluntary. A Participant may implement the Principles as it deems appropriate. Any policies or procedures implemented or other actions taken by a Participant based on the Principles should be appropriate for the size, nature and complexity of the Participant and its Transactions as well as its business activities generally.

It should not be assumed that an entity that is within the definition of Participant necessarily adheres to the Principles. Nevertheless, because the Principles confirm the nature of the relationship between Participants, an entity that is within the definition of Participant should be aware that Participants will make certain assumptions when entering into Transactions with that entity. 1.3 Supplementary Nature of Principles

The Principles are intended to supplement, and are not intended to replace or modify, applicable statutes, governmental regulations, exchange, board of trade or self-regulatory organization rules and industry practices (including those embodied in applicable codes of conduct).

2. Participants - Financial Resources

2.1 Financial Resources

A Participant should maintain adequate financial resources, including capital, liquidity or other sources of support, to manage the material risks associated with its Transactions and meet its Transaction commitments.

3. Participants - Policies and Procedures

3.1 Policies and Procedures

With respect to policies and procedures of the types identified in the Principles, a Participant should have policies approved by its board of directors, a committee thereof or an appropriate level of senior management. An appropriate level of senior management should approve controls and procedures to implement these policies. All policies, controls and procedures should be appropriate to the size, nature and complexity of the Participant and its Transactions, and should be reviewed as business and market circumstances change.

3.2 Supervision and Training of Employees

A Participant should maintain internal policies and procedures for supervising and training appropriate officers, employees and representatives of the Participant with respect to conduct related to Transactions.

3.3 Control and Compliance

A Participant should maintain and enforce internal control and compliance procedures designed so that its Transactions are conducted in accordance with applicable legal and regulatory requirements, internal policies and any specific requirements contained in any agreements applicable to its Transactions.

3.4 Risk Management

A Participant should maintain (i) policies and procedures that clearly delineate lines of responsibility for managing market, credit and other risks, (ii) adequate systems for measuring risks, including, where appropriate, systems for developing stress scenarios to measure the impact of market conditions that might reduce liquidity or cause extraordinary changes in price or volatility, (iii) appropriately structured limits on risk taking, (iv) policies and procedures designed for comprehensive and timely risk reporting, and (v) policies and procedures for reviewing the adequacy of internal measures of credit risk, market risk and valuation.

3.5 Independent Risk Monitoring

A Participant should have knowledgeable individuals responsible for risk monitoring and control who are independent of the individuals that conduct the Transactions that create the risk exposure.

3.6 Valuation

* 3.6.1 Valuation of Transactions

A Participant should maintain policies and procedures for the valuation of Transactions at intervals appropriate for the type of Transaction in question, regardless of the accounting methodology employed by the Participant. These policies and procedures should address the specific methodology used for valuation, including as appropriate the use of market or model based valuations with reserves and adjustments.

* 3.6.2 Obtaining External Valuations

If a Participant does not have the internal capability to value a Transaction and a price or market valuation of a Transaction is not publicly available or otherwise readily ascertainable, then the Participant should (i) ascertain the availability of external valuations (which may include valuations from its counterparty) prior to entering into the Transaction and (ii) obtain an external valuation of the Transaction at intervals appropriate for the type of Transaction in question.

When a Participant requests an external valuation for a Transaction, the Participant should clearly state the desired characteristics of the requested valuation (e.g., mid-market, indicative or firm price).

* 3.6.3 Evaluating External Valuations

In assessing any external valuation received, it is essential that the Participant consider the circumstances in which the valuation was provided, including criteria such as whether the party providing the valuation is a counterparty to the Transaction, the time frame within which the valuation was provided and whether the party supplying the valuation was compensated for its services. Participants should understand that a valuation of a particular Transaction may include adjustments for, among other factors, credit spreads, cost of carry and use of capital and profit, and may not be representative of either (i) the valuation used by a counterparty for internal purposes or (ii) other market or model based valuations.

* 3.6.4 Providing Valuations to Other Participants

Entering into a Transaction does not obligate a Participant to provide valuations of that Transaction to its counterparty. However, if a Participant does provide valuations of Transactions, it should maintain policies and procedures concerning the provision of valuations. Such policies and procedures should require the Participant to clearly state the characteristics of any valuation provided (e.g., mid-market, indicative or firm price). In those markets with specific conventions regarding valuations, Participants should supply valuations using those conventions, unless otherwise agreed.

3.7 Credit Risk

Before entering into a Transaction involving credit exposure to a counterparty, a Participant should assess its counterparty's ability to meet its payment obligations.

As credit relationships depend upon the existence of a legal relationship between parties, Participants should recognize situations where special steps may be necessary to assure that Transactions are enforceable against the party on whose credit the Participant is relying, particularly when dealing through third parties such as agents, brokers or investment advisors acting for undisclosed principals.

3.8 Legal Capacity and Authority to Transact

Before entering into a Transaction, a Participant should take measures reasonable under the circumstances to satisfy itself that its counterparty has the legal capacity and authority to enter into the Transaction. A Participant should recognize that Transactions with governmental units and regulated counterparties (such as depository institutions, mutual funds, pension plans, trusts and insurance companies) may require additional scrutiny to establish the scope of the counterparty's legal capacity and authority. Special scrutiny also should be given to the scope of a third party agent's authority to act for its principal.

4. Relationships Between Participants

4.1 Fair Dealing and Professional Standards

A Participant should act honestly and in good faith when marketing, entering into, executing and administering Transactions. A Participant should act in a manner designed to promote public confidence in the wholesale financial markets. In addition, a Participant should show its counterparties professional courtesy and consideration. 4.2 Relationships with Counterparties

* 4.2.1 Decision-Making Capability

A Participant should satisfy itself that it has the capability (internally or through independent professional advice) to understand and make independent decisions about its Transactions. That capability includes the experience, knowledge and ability to analyze the tax and accounting treatment as well as the legal, credit, market and liquidity risks of each Transaction. Absent a written agreement to the contrary, a Participant should expect that its counterparty will assume that the Participant has the capability to understand and make independent decisions about its Transactions and will act accordingly.

* 4.2.2 Reliance on Investment Advice

The character and level of risk that is desirable for a particular Participant is a business judgment that is appropriately made by the Participant's governing body or management, in accordance with any applicable statutory or regulatory constraints, based on an evaluation of the totality of its particular circumstances and objectives.

A Participant may communicate to its counterparty economic or market information relating to Transactions and trade or hedging ideas or suggestions. All such communications (whether written or oral) should be accurate and not intentionally misleading. Absent a written agreement or an applicable law, rule or regulation that expressly imposes affirmative obligations to the contrary, a counterparty receiving such communications should assume that the Participant is acting at arm's length for its own account and that such communications are not recommendations or investment advice on which the counterparty may rely.

In any case where a Participant does not wish to make independent investment decisions regarding a Transaction and instead wishes to rely on a counterparty's communications as recommendations or investment advice, the Participant should, prior to entering into a Transaction with that counterparty involving such reliance, (i) put its counterparty on notice in writing that it is relying on the counterparty, (ii) obtain the counterparty's agreement in writing to do business on that basis, and (iii) provide the counterparty with accurate information regarding its financial objectives and the size, nature and condition of its business sufficient to provide such recommendations or investment advice. The extent of the counterparty's obligations to provide recommendations and investment advice then will be determined by that written agreement and any applicable law, rule or regulation that imposes affirmative obligations on the counterparty. Certain laws, rules or regulations expressly provide that, in some situations, an oral agreement or the facts and circumstances of a relationship alone may give rise to an advisory or fiduciary relationship, in some cases even in the presence of a written agreement purporting to negate such a relationship. Nonetheless, to avoid misunderstandings and disputes, the steps outlined above should be followed.

* 4.2.3 Transaction Information

A Participant should ensure that it identifies and reaches agreement on all material terms and conditions of each Transaction it enters into. In some cases it may be useful for the parties to exchange a written outline of the principal terms and conditions of a Transaction prior to its execution. A Participant should either ask questions and request additional information or seek independent professional advice when it does not have a full understanding of either the risks involved in a Transaction or the fit between a Transaction and its desired risk profile. A counterparty should answer such questions and respond to such requests for additional information in good faith, and the information provided should be accurate and not intentionally misleading. A Participant should expect that, if it does not expressly ask questions or request additional information with respect to a Transaction, its counterparty will assume that the Participant understands the Transaction and has all the information it needs for its decision-making process.

* 4.2.4 Other Activities of Counterparties

A Participant should be aware that in the over-the-counter financial markets it may be customary for a counterparty to (i) take positions in instruments that are identical or economically related to a Transaction that has been or will be entered into with the Participant, or (ii) have commercial relationships with the issuer of an instrument underlying a Transaction that has been or will be entered into with the Participant.

* 4.2.5 Role as Agent or Broker

A Participant that represents itself as generally acting as a "broker" in Transactions should act only as agent for both parties or (in those markets where it is customary to do so) as riskless principal, unless it discloses clearly to all parties before executing a Transaction that it is acting in another capacity.

A Participant that represents itself as generally acting as a principal may on occasion agree to act as an agent for a counterparty, to assist the counterparty to execute a Transaction with other Participants on a "best execution" basis or at a specified level, or to effect a Transaction directly if and when the Participant is prepared to do so at a specified level. A Participant acting as an agent should avoid misusing its knowledge of the terms on which the counterparty is prepared to execute a Transaction to take unfair advantage of the counterparty.

A Participant should be aware that its agent may be engaging in other activities as described above in Section 4.2.4.

4.3 Confidentiality

A Participant expects that its involvement in a Transaction will be handled in confidence by its counterparty. Accordingly, a Participant should not, except with express permission, disclose or discuss, or request that others disclose or discuss, information relating to its counterparty's involvement in a Transaction except to the extent required by law or required or requested by a regulatory authority.

5. Considerations Relating to Relationships Between Participants

5.1 Introduction

A Participant (particularly one that is holding itself out as a dealer in a particular wholesale financial instrument) should maintain policies and procedures that identify and address circumstances that can lead to uncertainties, misunderstandings or disputes with the potential for relationship, reputational or litigation risk. A Participant should consider including in such policies and procedures provisions designed to address the particular circumstances described in this Section 5. Maintaining and complying with such policies and procedures should be regarded as steps taken by the Participant for its own protection. Accordingly, neither the maintenance nor compliance with such policies and procedures should be construed as giving rise to duties to others.

5.2 Counterparty Decision-Making Capability

A Participant may wish to evaluate (based upon information in its possession) its counterparty's capability (internally or through independent professional advice) to understand and make independent decisions about the terms and conditions of its Transactions. A Participant may, without limitation, consider the following factors in evaluating a counterparty's capability: the nature of the counterparty's business; the financial size and condition of the counterparty; the counterparty's prior dealings or experience in Transactions; and the nature, complexity and risks of a proposed Transaction. A Participant should be aware that if it holds itself out as a dealer for a certain type of Transaction, other Participants will assume that it has the capability to understand and make independent decisions regarding that type of Transaction.

A Participant may wish to maintain policies and procedures for identifying (based on information in the possession of the representative of the Participant executing the Transaction on the Participant's behalf) and addressing exceptional situations (which may pose relationship, reputational or litigation risks to the Participant) where its counterparty either (i) does not have the capability (internally or through independent professional advice) to understand and make independent decisions regarding a particular Transaction or a type of Transaction being proposed by the Participant or (ii) has the capability to understand and make independent decisions regarding a Transaction, but where (a) the amount of risk to the counterparty involved in the Transaction appears to be clearly disproportionate in relation to the size, nature and condition of the counterparty's business or (b) the counterparty appears to assume incorrectly that it may rely on the Participant for recommendations or investment advice.

A Participant may wish to consider taking such steps, if any, as it may deem appropriate in the circumstances to address these types of exceptional situations, including, without limitation, (i) providing or obtaining additional information to or from the counterparty, (ii) involving additional qualified personnel internally, (iii) involving additional qualified personnel of the counterparty, (iv) entering into a written agreement specifying the nature of the relationship or (v) not entering into the particular Transaction or type of Transaction with that counterparty. This list of steps to consider for exceptional situations is neither exhaustive nor mandatory because any appropriate response will be based upon the facts and circumstances of a specific situation.

5.3 Notifying Counterparties of Nature of Relationship

A Participant may wish to inform some or all of its counterparties of the nature of the relationships between Participants. Such information may, without limitation, take the form of (i) communications to a counterparty that are designed to put the counterparty on notice about the Participant's assumptions regarding the counterparty's capability to understand and make independent decisions and non-reliance concerning Transactions with the Participant (which communications may include sending a copy of the Principles to the counterparty), or (ii) representations or disclosures to be acknowledged by a counterparty that are designed to confirm that the Participant's assumptions regarding the counterparty's capability to understand and make independent decisions and non-reliance concerning Transactions with the Participant are correct.

5.4 Providing Additional Information to Counterparties

For a Transaction in which the payment formula is particularly complex or which includes a significant leverage component, a Participant may wish to assist a counterparty in its decision-making process by providing more information (such as loss scenarios) to a counterparty than is typically provided for other types of Transactions. Where loss scenarios are part of the information voluntarily provided to a counterparty, or where loss scenarios are prepared at a counterparty's request and the counterparty does not stipulate some or all of the assumptions to be used in making the calculations, the Participant should attempt in good faith to use assumptions that provide information that is reasonable under the circumstances.

6. Mechanics of Transactions

6.1 When Transactions are Binding

A Transaction should be considered final and binding when entered into in accordance with applicable market practice, whether by oral, written or electronic means.

6.2 Confirmations

Transactions should be confirmed as soon as possible and in accordance with applicable market practice. For most types of Transactions, a confirmation (whether sent by mail, telex, facsimile, electronic or other means) provides a necessary final safeguard against errors. All confirmations should be dispatched promptly by one or both parties and reviewed carefully by the receiving party, even when oral checks of the Transactions have been undertaken. The dispatch and checking of confirmations also should be carried out or reviewed independently from those who conduct the Transactions.

6.3 Payment and Settlement Instructions

A Participant should provide its counterparty with standing payment and settlement instructions, and any modifications to those standing instructions should be communicated as quickly as possible to facilitate prompt settlement of Transactions.

6.4 Documentation

A Participant should use, to the greatest extent practicable, standardized or master agreements or comparable arrangements that apply to multiple Transactions, in order to provide standardized terms governing Transactions and to provide for the netting or offset of credit exposures and payment obligations. A Participant should review and where appropriate modify the documentation it uses in connection with Transactions periodically in light of changes in market practice or law.

6.5 Complaints and Settlement of Differences

A Participant should notify its counterparty promptly of any dispute or complaint involving a Transaction in order to mitigate any damages to itself or its counterparty. A Participant should attempt to resolve promptly and fairly any such dispute or complaint. A Participant should ensure that all complaints involving Transactions are promptly and fairly investigated, wherever practicable, by employees or representatives of the Participant who were not directly involved with the disputed Transaction. Such investigations should be construed as an act of prudence to reduce the risk of loss resulting from the dispute, and not as an admission of liability by the Participant.

In addition, upon receiving information that a complaint or dispute involving a Transaction may create market exposure, the Participant should consider all available methods to reduce potential losses from that exposure. Any such steps taken should be construed as an act of prudence and not an admission of liability by the Participant.

7. Standards for Transactions

7.1 Misuse of Market Terminology and Conventions

Traders, brokers, and other employees or representatives of a Participant should use clear and unambiguous language when negotiating Transactions. Recognizing that each type of Transaction may have its own unique terminology, definitions and calculations, a Participant should, prior to engaging in a Transaction, familiarize itself with that type of Transaction's terminology and conventions, and, where necessary, inform its personnel of differences in terminology, conventions and specific terms that may be particularly susceptible to misinterpretation. In addition, no Participant should abuse deliberately market procedures or conventions to obtain an unfair advantage over, or to unfairly prejudice, its counterparties.

7.2 Manipulative Practices

A Participant should not engage in any trading practices that constitute fraudulent, deceptive or manipulative acts or practices under applicable laws and regulations.

7.3 Bribes and Outside Fees and Commissions

No employee or representative of a Participant should offer or solicit explicit inducements to or from employees or representatives of other institutions in exchange for conducting business. It is recognized, however, that entertainment and gifts in reasonable amounts are offered and accepted in the ordinary course of business, and do not necessarily constitute inducements. A Participant should maintain policies and procedures that provide guidance on the provision and receipt of entertainment and gifts by staff.

7.4 Rumors and False Information

A Participant should not spread any rumors or misinformation that the Participant knows or believes to be false or misleading. In addition, a Participant should not disseminate any information that falsely states or implies governmental approval of any institution or Transaction.

7.5 Money Laundering and Other Criminal Activities

A Participant should take measures designed to satisfy itself that its Transactions are not being used to facilitate money laundering or other criminal activities.

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