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LMA introduces delayed settlement compensation as an option in par trading documents

The Loan Market Association, the trade association representing banks and other interested parties involved in the primary and secondary Euroloan markets, has introduced delayed settlement compensation as an option into its Par Trade Confirmation document. A buy-in/sell-out concept will be introduced simultaneously, which will serve as a mechanism for enforcing delayed settlement compensation. The option will only apply to performing assets and it will only be possible to exercise it if all the other terms of trade have been fulfilled.

The LMA Standard Terms and Conditions for Par Trade Transactions have been amended to accommodate the new option, and this document, as well as the amended Trade Confirmation, is now available to LMA members.

Gary O'Connor, LMA Director and Chairman of the Valuation and Trading Practices Committee said:

"The LMA continually seeks to ensure that its recommended documentation and guidelines reflect the wishes of the market participants overall. The issue was debated at length and, on balance, we felt it was appropriate to introduce delayed settlement compensation as an option. The key issue was common agreement that the on-risk party should be rewarded on a timely basis, and the new option provides a mechanism to ensure this happens. I should stress that the concept is optional and it will be up to individual parties to a trade to decide whether or not to include the option in the trade terms. Our intention will be to review the market experience of the new option in the short term."

Ends

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NOTES TO EDITORS

Loan Market Association

The Loan Market Association was founded in December 1996 by seven leading international banks in London. Its aim was to encourage liquidity and efficiency in both the primary and secondary loan markets by promoting market depth and transparency, as well as by developing standard forms of documentation and codes of market practice. Banks, law firms and other market practitioners were invited to join the LMA, and the membership currently stands at 247.

The Association was established in anticipation of changing market conditions and of a perceived willingness on the part of the banking community to bring greater clarity, efficiency and liquidity to the relatively under-developed secondary market.

The initiative was clearly well timed, as since 1997, there has been sustained growth in secondary loan activity in the Euromarkets, with volumes for 2004 estimated at EUR 42 billion.

The LMA has gained recognition in the market and has expanded its activities to include all aspects of the primary and secondary syndicated loan markets. It sees its overall mission as acting as the authoritative voice of the syndicated loan market in Europe vis à vis banks, borrowers, regulators and other affected parties.

For more information, please visit www.lma.eu.com.