



INTERNATIONAL SECURITIES MARKET ASSOCIATION

By e-mail

To the members of the Association

December 10, 2004
TH/AS/ys

New by-laws for the compensation committee and the finance and audit committee

Dear members

1. Introduction

On August 29, 2003, the board established a new compensation committee comprising the members of the executive committee, excluding the chief executive and secretary general.

On March 19, 2004, the board decided that the finance committee operate under the name of finance and audit committee.

On December 10, 2004 the board approved new by-laws for both committees in accordance with article 18 (2) of the statutes.

2. The main features of the new by-laws for the compensation committee

- 2.1 According to by-law 1002, the compensation committee's task is to review, on an annual basis, the remuneration of the chief executive and secretary general, the managing director of ISMA Limited as well as any other officers of the Association and its subsidiaries as determined by the board of ISMA from time to time and to make a recommendation to the board on the appropriateness of such remuneration.

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- 2.2 The compensation committee consists of the members of the executive committee, excluding, however, the chief executive and secretary general (by-law 1004).
- 2.3 By-laws 1005 to 1011 stipulate a number of procedural rules that the compensation committee must adhere to when transacting business.

3. The main features of the new by-laws for the finance and audit committee

- 3.1 According to by-law 1102, the finance and audit committee's task is to oversee, control and report on the budgetary process and financial control of ISMA in their entirety in order to enable the board of ISMA to conduct an appropriate supervision of the Association's financial affairs.

More specifically, the committee shall

- (i) review, on a quarterly basis, the books and financial records of ISMA on a consolidated basis and issue a quarterly status report to the board;
 - (ii) discuss, on an annual basis, ISMA's accounts on a consolidated basis with the statutory auditors in the absence of ISMA's and its subsidiaries' management prior to the approval of the accounts by the board and report on such discussions to the board (by-law 1103).
- 3.2 Pursuant to by-law 1104 the finance and audit committee shall issue directives in order to ensure that the quarterly review and status report as well as the day-to-day control of ISMA's and its subsidiaries' financial affairs are conducted appropriately and in line with current market and business standards.
- 3.3 The finance and audit committee comprises three members of the board of ISMA. Where appropriate, the chairman of the committee may invite other participants (by-law 1106).
- 3.4 By-laws 1107 to 1112 stipulate a number of procedural rules that the finance and audit committee must adhere to when transacting business.

4. The new by-laws in light of EU and UK competition law

In line with ISMA's longstanding policy and in order to ensure that the new by-laws for both committees do not infringe EU or UK competition law, the new by-laws were submitted to ISMA's outside legal counsel who have confirmed that they do not raise EU or UK competition law concerns.

5. **The effective date of the new by-laws**

The new by-laws for both committees will become effective on January 1, 2005.

6. **The wording of the new by-laws**

The new by-laws for both committees are attached to this circular as separate documents (attachment 1 and 2).

7. **Update to ISMA's rule book**

The current version of the rule book on ISMA's website will be replaced with an amended version incorporating the new by-laws for both committees.

Yours sincerely



John L. Langton
Chief Executive and
Secretary General



Thomas Hunziker
General Counsel

Attachments

J. By-laws concerning compensation committee

Constitution, competence, membership and proceedings of the compensation committee

1001 The compensation committee is established on the basis of article 19 (2) of the statutes. The board hereby enacts the following by-laws governing the activities and procedures of the compensation committee on the basis of article 18 (2) of the statutes.

Competence

1002 In order to enable the board of the Association to set an appropriate level of compensation for the chief executive and secretary general, the managing director of ISMA Limited as well as any other officers of the Association and its subsidiaries as determined by the board of the Association from time to time (hereinafter collectively referred to as "Designated Positions") the compensation committee shall, on an annual basis, review the remuneration for the Designated Positions and issue a recommendation to the board on the appropriateness of such remuneration.

1003 The compensation committee shall have access to relevant data on record at the Association and its subsidiaries concerning the individuals holding a Designated Position and shall have the right to interview, and hold discussions with, such individuals as deemed appropriate by the compensation committee.

Membership

1004 The compensation committee shall consist of the members of the executive committee, excluding, however, the chief executive and secretary general.

As soon as possible following each general meeting, the compensation committee shall elect from amongst its members a chairman.

Proceedings

1005 Meetings of the compensation committee shall be called by its chairman or by two thirds of its members.

1006 Meetings shall normally be coordinated with meetings of the board of the Association and shall then be held at the place of a given board meeting.

1007 Meetings shall be chaired by the chairman of the compensation committee or in the case of the chairman's inability by a member appointed ad-hoc for the particular meeting.

A member of the compensation committee shall be deemed to be present at a meeting of the compensation committee if he or she is able (directly or by telephonic or video communication) to speak to and be heard by all those present or deemed to be present simultaneously.

- 1008 Minutes of the meetings, including telephone or video conferences, shall be kept by a member of the compensation committee or such other person appointed by the compensation committee for this purpose.
- 1009 The quorum for the transaction of business shall be the presence of the absolute majority of the members.
- 1010 Resolutions shall require the concurrence of the absolute majority of the members present.
- 1011 Resolutions may be passed by mail, telefax or e-mail, provided that no member requests oral discussion and shall require the written approval of two thirds of the members of the compensation committee.

K. By-laws concerning finance and audit committee

Constitution, competence, membership and proceedings of the finance and audit committee

1101 The finance and audit committee is established on the basis of article 19 (2) of the statutes. The board hereby enacts the following by-laws governing the activities and procedures of the finance and audit committee on the basis of article 18 (2) of the statutes.

Competence

1102 The finance and audit committee shall oversee, control and report on the budgetary process and financial control of the Association in their entirety in order to enable the board of the Association to conduct an appropriate supervision of the Association's financial affairs.

1103 The tasks of the finance and audit committee shall be

- to review, on a quarterly basis, the books and financial records of the Association on a consolidated basis and to issue a quarterly status report to the board,
- to discuss, on an annual basis, the Association's accounts on a consolidated basis with the statutory auditors in the absence of ISMA's and its subsidiaries' management prior to the approval of the accounts by the board, and to report on such discussions to the board.

1104 The finance and audit committee shall issue directives which shall ensure that the quarterly review and status report, as well as the day-to-day control of the Association's and its subsidiaries' financial affairs, are conducted appropriately and in line with current market and business standards.

1105 The finance and audit committee shall have unlimited access to all financial data of the Association and its subsidiaries and shall have the right to interview employees of the Association and its subsidiaries concerned with financial matters.

Membership

1106 The finance and audit committee shall consist of three members of the board of the Association. The chairman may, where appropriate, invite other participants.

As soon as possible following each general meeting, the finance and audit committee shall elect from amongst its members a chairman.

Proceedings

1107 The finance and audit committee shall meet at least four times a year. Meetings shall be called by its chairman or by two thirds of its members.

1108 Meetings shall be chaired by the chairman of the finance and audit committee or in the case of the chairman's inability by a member appointed ad-hoc for the particular meeting.

A member of the finance and audit committee shall be deemed to be present at a meeting of the finance and audit committee if he or she is able (directly or by telephonic or video communication) to speak to and be heard by all those present or deemed to be present simultaneously.

1109 Minutes of the meetings, including telephone or video conferences, shall be kept by the director for finance and administration of the Association or such other person appointed by the finance and audit committee for this purpose.

1110 The quorum for the transaction of business shall be the presence of the absolute majority of the members.

1111 Resolutions shall require the concurrence of the absolute majority of the members present.

1112 Resolutions may be passed by mail, telefax or e-mail, provided that no member requests oral discussion and shall require the written approval of two thirds of the members of the finance and audit committee.