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S&P's New Counterparty Risk Criteria for Structured Finance Securities Offer Additional Flexibility for Derivative Transactions

September 28, 2012

On May 31, 2012, Standard & Poor's ("**S&P**") published an article entitled "*Counterparty Risk Framework Methodology and Assumptions*", which outlines S&P's updated criteria for managing counterparty risk relating to certain structured finance transactions and covered bonds (the "**2012 Criteria**"). The 2012 Criteria replace prior criteria contained in the following S&P publications: (i) "*Counterparty And Supporting Obligations Methodology And Assumptions*" (published December 6, 2010), (ii) "*Counterparty And Supporting Obligations Update*" (published January 13, 2011), (iii) "*Expanding The Scope of Counterparty Criteria To Corporate And Government Ratings*" (published June 21, 2011) and (iv) "*Global Counterparty And Supporting Obligations Framework For Classifying Currencies*" (published June 28, 2011) (collectively, the "**2010 Criteria**"). The 2012 Criteria became effective upon their publication and apply to all new and existing relevant transactions. Although the 2012 Criteria concern counterparty risk relating to various types of transactions, this Memorandum will focus on certain provisions of the 2012 Criteria relating to derivative transactions (including currency swaps and interest rate swaps, caps and floors) that offer additional flexibility for the parties to such transactions (a "**Swap Counterparty**") as compared to the 2010 Criteria [1].

COUNTERPARTY ELIGIBILITY

A common characteristic of structured finance securities is the issuer's reliance upon payments received from providers of interest rates swaps or other derivative transactions. In the presence of such reliance, unless the swap documentation contains the applicable provisions from the 2012 Criteria, S&P cannot "de-link" counterparty risk from the applicable securities and, therefore, cannot rate the related securities higher than the applicable Swap Counterparty. Accordingly, the cornerstone of S&P's approach is to encourage the replacement of a Swap Counterparty upon its downgrade below an acceptable minimum rating level. In S&P's view, it is this replacement feature that allows a security to be rated higher than the related Swap Counterparty.

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[1] Please note that "Additional Changes Offering Increased Flexibility – Use of Short-Term Ratings" below does highlight a new limitation added by the 2012 Criteria.

2010 Criteria

Pursuant to the 2010 Criteria, S&P introduced a new approach whereby the minimum eligibility level of a Swap Counterparty was conditioned upon the maximum potential rating of the rated security [2]. In documentation we have negotiated for our clients under the 2010 Criteria, this approach was reflected in a "sliding-scale" ratings-based Additional Termination Event against the Swap Counterparty. If the relevant security was downgraded, the minimum eligibility level of the Swap Counterparty would decrease to the corresponding level. However, if S&P notified the issuer that it intended to issue a higher rating on the securities *but for the then-current rating of the Swap Counterparty*, the required rating of the Swap Counterparty would increase to the correspond level and, if the Swap Counterparty did not have the requisite rating from S&P, an Additional Termination Event could result if the Swap Counterparty did not take remedial action.

The 2010 Criteria required that a Swap Counterparty rated below the minimum eligibility level take remedial action within a prescribed period of time in order to prevent a downgrade of the related securities. Available remedies included posting collateral or obtaining a guarantee from, or novating the transaction to, an appropriately-rated institution. The amount of collateral that a Swap Counterparty was required to post was a function of both the issuer's exposure to the Swap Counterparty and a "volatility buffer". The volatility buffers under the 2010 Criteria were, in turn, a function of (i) the type of transaction, (ii) the outstanding notional amount of the transaction and (iii) the remaining term of the transaction.

2012 Criteria

S&P has retained the sliding-scale approach in the 2012 Criteria, but has expanded it considerably, providing Swap Counterparties and issuers with increased flexibility in structuring new transactions. Rather than outlining a single scale like the 2010 Criteria, the 2012 Criteria contain four distinct replacement options, each of which combines different minimum eligibility rating levels, posting requirements and cure periods. [3] As the minimum eligibility level rises, the required collateral amount decreases (or is eliminated). The required collateral amount is also higher for swaps designated in less liquid currencies. However, as the remaining weighted average life of a trade reduces, so does the required collateral amount. [4]

The thrust of both the 2010 Criteria and 2012 Criteria is to encourage replacement when a Swap Counterparty is ineligible. Accordingly, as with the 2010 Criteria, the 2012 Criteria require that a Swap Counterparty post additional collateral where the swap documentation does not contain an

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[2] See <u>Exhibit 1</u> hereto.

[3] See <u>Exhibit 2</u> hereto.

[4] See <u>Exhibit 3</u> hereto.

Additional Termination Event for a failure to replace below the second trigger level. [5] The longer a Swap Counterparty rated below the second trigger remains in a transaction, the more collateral (i.e. an increasing percentage of notional) will be required to be posted in addition to all other amounts required to be posted.

It is important to note that, in addition to offering different replacement options, the 2012 Criteria allow parties to include more than one option in their agreements. Parties may include each of the four replacement options outlined in Exhibit 2, but only one replacement option may be in effect at any particular time. However, as long as the documentation indicates the option that applies from execution, a Swap Counterparty may elect for a different replacement option to apply if, among other things, (i) it is not an Affected Party or Defaulting Party under the applicable agreement at the time of the election, (ii) prior notice is given by the Swap Counterparty to the trustee and S&P and (iii) the election would not result in the Swap Counterparty being below the new replacement trigger level. Accordingly, a Swap Counterparty may select the option that is most favorable to it, at any time, based upon its S&P rating, liquidity situation and any other factors it deems relevant.

A Comparison

An example may be helpful in emphasizing the differences between the 2010 and 2012 minimum eligibility scales and between the various replacement options available under the 2012 Criteria.

[5] See Exhibit 4 hereto.

Figure 1 below reflects the respective triggers, cures and required collateral amounts under the 2010 Criteria and each replacement option under the 2012 Criteria based upon a hypothetical swap assuming the following: a USD-based fixed-to-floating interest rate swap with a remaining notional of $100 million and a remaining term of 12 years where the related securities have a maximum potential long-term rating of "AA".

Figure 1:

		First Trigger	First Trigger Cures	First Trigger Collateral Amount	Second Trigger	Second Trigger Cures	Second Trigger Required Amount
2010 Criteria		Below A-	Post, replace or guarantee within 10* business days	Exposure plus $18,000,000 (18% of remaining Notional)	Below BBB+	Post within 10* business days and replace or guarantee within 60** calendar days	Exposure plus $18,000,000 (18% of remaining Notional)
2012 Criteria	Option 1	Below A-	Post, replace or guarantee within 10* business days	Exposure plus $11,700,000 (11.7% of remaining Notional)	Below BBB+	Post within 10* business days and replace or guarantee within 60** calendar days	Exposure plus $11,700,000 (11.7% of remaining Notional)
	Option 2	Below A	Post, replace or guarantee within 10* business days	1.25 x Exposure	Below A-	Post within 10* business days and replace or guarantee within 60** calendar days	Greater of either (i) Exposure plus $3,900,000 (3.9% of remaining Notional) or (ii) 1.3 x Exposure
	Option 3	Below A	Post within 10* business days and replace or guarantee within 60** calendar days	1.25 x Exposure	n/a	n/a	n/a
	Option 4	Below A+	Replace or guarantee within 30** calendar days	n/a	n/a	n/a	n/a

* Both the 2010 and 2012 Criteria provide that the 10-business day posting period may be extended by an additional 10 business days if, before the initial 10 business days expire, the Swap Counterparty provides the issuer's trustee and S&P with written plans for collateral posting.

** Both the 2010 and 2012 Criteria provide that the 60-calendar day cure period may be extended by an additional 30 calendar days if, before the initial 30 calendar days expire, the Swap Counterparty provides the issuer's trustee and S&P with written plans for providing a remedy.

As the above table reflects, the 2012 Criteria offer a Swap Counterparty much better optionality in terms of managing the impact of its own S&P rating.

ELIGIBLE COLLATERAL

2010 Criteria

Pursuant to the 2010 Criteria, eligible collateral securing a Swap Counterparty's obligations included (i) cash, (ii) sovereign government securities rated at least as high as the rated securities and (iii) other securities listed in S&P's market value criteria[6] subject to 'AA' liability haircuts" and, in each case, only if denominated in the same currency as the applicable rated securities. In connection with transactions subject to the 2010 Criteria, we have negotiated with S&P certain deviations from these restrictions, including: (i) the inclusion of certain sovereign securities, regardless of their rating and regardless of whether they are denominated in the same currency as the applicable rated securities, (ii) the inclusion of other securities listed in the market value criteria subject to higher valuation percentages when the maximum potential rating on the applicable securities was below 'AAA' and (iii) the inclusion of a sliding scale whereby the valuation percentages change as the rating on the applicable securities changes (i.e. as the rating on the securities falls, the valuation percentage increases).

2012 Criteria

The 2012 Criteria expressly include some of the deviations discussed above. First, all sovereign government securities now constitute eligible collateral. Sovereign government securities rated at least as high as the applicable securities are valued at 100% for valuation purposes, while those rated lower than the applicable securities are subject to a haircut. Second, collateral denominated in a currency other than that of the applicable rated securities is eligible, although subject to additional haircuts to account for foreign exchange risk.[7] Third, while the 'AA' valuation percentages outlined in S&P's market value criteria may still support 'AAA' securities, for securities rated below 'AAA', the 2012 Criteria permit securities to be supported by collateral with haircuts included in the next lower rating category (i.e. 'AA' securities may be supported by haircuts in the 'A' category).

ADDITIONAL CHANGES OFFERING INCREASED FLEXIBILITY

Other material differences between the 2010 Criteria and the 2012 Criteria include (but are not limited to) the following:

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[6] "*Request for Comment: Methodology and Assumptions for Market Value Securities" published August 31, 2010 and "Leveraged Funds/Market Value Criteria and Overcollateralization Requirements: Leveraged Funds: Market Value Ratings Criteria*" published March 1, 1999.

[7] See Exhibit 5 hereto.

Netting between Exposure and Volatility Buffer

The 2012 Criteria permit netting between the volatility buffer and exposure when the mark-to-market of the transaction is in favor of the Swap Counterparty.

Under the 2010 Criteria, such netting was only permitted when a Swap Counterparty provided a firm commitment to replace itself when rated below the second trigger level (as opposed to only covenanting to use reasonable efforts to replace itself).

External Marks Requirement

Under the 2010 Criteria, in order for an issuer to obtain the highest possible rating on its securities, the Swap Counterparty was required to provide to S&P both semiannual and interim marks of each transaction once posting of collateral had commenced. Although interim marks could be based on internal calculations, the semiannual marks were to be from an external, independent party. Failure to provide such marks was required to be an Additional Termination Event, and the failure to include such a requirement in the swap documents resulted in a two-notch downgrade of the related securities. S&P acknowledged that such marks may not reflect true replacement costs, but asserted that such external requirement was important in determining that replacement counterparties were, in fact, available. Some of our clients were hesitant to agree to such an external mark requirement because an inability to obtain such marks could result in early termination of a transaction at exactly the same time that liquidity in that type of trade was limited. On behalf of such clients, we were able to negotiate with S&P a cure to the Additional Termination Event whereby the swap provider, in lieu of providing marks, could post additional collateral as if there was no covenant to replace below the second rating trigger[8]. Under this alternative, a Swap Counterparty only bears a *temporary* risk that no replacement marks are available.

Fortunately for our clients, under the 2012 Criteria, the requirement to provide external marks to S&P has been eliminated.

Use of Short-Term Ratings

The 2012 Criteria seem to also provide additional flexibility by permitting a party without a long-term rating to be an eligible Swap Counterparty. The 2012 Criteria provide for the inference of long-term ratings from short-term ratings based upon the following:

- 'A-1+' corresponds to 'AA-'.
- 'A-1' corresponds to 'A' for financial institutions, and 'A-' for all other entities.

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[8] See second paragraph of "2012 Criteria" above and Exhibit 4 hereto.

- 'A-2' corresponds to 'BBB'.
- 'A-3' corresponds to 'BBB-'.

Accordingly, depending on the replacement option selected under the 2012 Criteria, a Swap Counterparty with a short-term rating only may be able to be an Eligible Counterparty for a range of transactions for which the counterparty's long-term rating requirement is equal to or lower than the corresponding short-term rating above.

It is important to note that provisions relating to use of short-term ratings in the 2012 Criteria may also introduce a limitation not present in the 2010 Criteria. Under the 2010 Criteria, all minimum eligible counterparty ratings were tied to long-term ratings of the Swap Counterparty, except for a rating of 'A'. A rating of 'A' or higher also required a short-term rating of 'A-1', and if a Swap Counterparty did not have such short-term rating, a long-term rating of 'A+' (not 'A') was required to support securities with a maximum potential rating of 'AAA' or 'AA+'. *Accordingly, a Swap Counterparty without short-term ratings could still be an eligible counterparty as long as its long-term rating was high enough.* However, under the 2012 Criteria, it appears to be the intent of S&P that in order to meet a minimum rating of 'A' or higher, a Swap Counterparty must also have a short-term rating of 'A-1'. Additionally, in order to meet a minimum rating of 'BBB', 'BBB+' or 'A-', it appears to be the intent of S&P that a Swap Counterparty *must* also have a short-term rating of at least 'A-2'. In either case, there is no elevation of the long-term rating requirement. Instead, a Swap Counterparty without the requisite short-term rating may be considered ineligible. Any hard requirement of short-term ratings to accompany certain long-term ratings would pose a substantial obstacle to participation in these types of structured transactions by derivative product companies and other structured swap vehicles that do not have any short-term ratings from S&P.

SUMMARY

In summary, it is this author's view that the 2012 Criteria, with some exceptions, provide swap providers with increased flexibility in managing the impact of their own S&P ratings with respect to both new and existing transactions. It is important to note, however, that this article contains no discussion of what may or may not be required under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "DFA"). For analysis of provisions of the DFA related to swap transactions, readers of this article are hereby referred to http://www.cadwalader.com/Resources/The_Dodd-Frank_Act/234 and http://www.cadwalader.com/thecabinet/index.php.

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EXHIBIT 1**

Minimum Counterparty Rating Derivative Obligations

Maximum potential rating of supported security	Without collateral	With collateral
AAA	A*	BBB+
AA+	A*	BBB+
AA	A-	BBB+
AA-	A-	BBB
A+	BBB+	BBB
A	BBB+	BBB
A-	BBB	BBB-
BBB+	BBB	BBB-
BBB	BBB-	BB+
BBB-	BBB-	BB+
BB+	BB+	BB+
BB and below	At least as high as the note rating	At least as high as the note rating

* 'A' with an 'A-1' short term rating, otherwise 'A+'.

** Source: Standard & Poor's

EXHIBIT 2*

Minimum Eligible Counterparty Ratings For Derivatives

	Minimum eligible counterparty rating					
	Replacement option 1		Replacement option 2		Replacement option 3	Replacement option 4
Maximum potential rating on supported security	Without collateral	With collateral	Without collateral	With collateral		
AAA	A	BBB+	A	A-	A	A+
AA+	A	BBB+	A	A-	A	A+
AA	A-	BBB+	A	A-	A	A+
AA-	A-	BBB	A-	BBB+	A-	A
A+	BBB+	BBB	A-	BBB+	A-	A
A	BBB+	BBB	A-	BBB+	A-	Security rating
A-	BBB	BBB-	BBB+	BBB	BBB+	Security rating
BBB+	BBB	BBB-	Security rating	BBB	Security rating	Security rating
BBB	BBB-	BB+	Security rating	BBB-	Security rating	Security rating
BBB-	Security rating	BB+	Security rating	Security rating	Security rating	Security rating
BB+ and below	Security rating	Security rating	Security rating	Security rating	Security rating	Security rating
Collateral amount BEFORE replacement trigger (see note 1)	N/A	MTM + Option 1 VB	N/A	MTM x 1.25	N/A	N/A
Collateral amount AFTER replacement trigger (see note 1)	N/A	MTM + Option 1 VB	Not applicable	Higher of: (i) MTM+ Option 2 VB, or (ii) MTM x 1.3	MTM x 1.25	N/A
Remedy period	10 business days	60 calendar days	10 business days	60 calendar days	60 calendar days	30 calendar days

1. A derivative counterparty agrees to replace itself when its rating falls below the minimum eligible counterparty rating with collateral for options 1 and 2, and the minimum eligible counterparty rating for options 3 and 4.

*Source: Standard & Poor's

EXHIBIT 3*

Replacement Option 1 Volatility Buffer By Currency Risk Group (% Of Notional) For Supported Securities Rated 'AAA'					
	Interest rate swaps (%)		Cross currency swaps (%)		
Swap tenor—weighted-average life (years)	Fixed to floating	Floating to floating	Fixed to floating	Fixed to fixed	Floating to floating
Currency Risk Group 1 volatility buffers					
Up to 3	8.5	4	10	20	5
Greater than 3 and less than or equal to 5	12.5	5	15	30	8
Greater than 5 and less than or equal to 10	15	6	18	36	9
Greater than 10 and less than or equal to 15	18	7	22	44	11
Greater than 15	21	8	25	50	13
Currency Risk Group 2 volatility buffers					
Up to 3	13	6	15	30	8
Greater than 3 and less than or equal to 5	19	8	23	45	12
Greater than 5 and less than or equal to 10	23	9	27	54	14
Greater than 10 and less than or equal to 15	27	11	33	66	17
Greater than 15	32	12	38	75	20
Currency Risk Group 3 volatility buffers					
Up to 3	17	8	20	40	10
Greater than 3 and less than or equal to 5	25	10	30	60	16
Greater than 5 and less than or equal to 10	30	12	36	72	18
Greater than 10 and less than or equal to 15	36	14	44	88	22
Greater than 15	42	16	50	100	26

Replacement Option 1 Volatility Buffer By Currency Risk Group (% Of Notional) For Supported Securities Rated In The 'AA' Category					
	Interest rate swaps (%)		Cross currency swaps (%)		
Swap tenor—weighted-average life (years)	Fixed to floating	Floating to floating	Fixed to floating	Fixed to fixed	Floating to floating
Currency Risk Group 1 volatility buffers					
Up to 3	5.5	2.6	6.5	13.0	3.3
Greater than 3 and less than or equal to 5	8.1	3.3	9.8	19.5	5.2
Greater than 5 and less than or equal to 10	9.8	3.9	11.7	23.4	5.9
Greater than 10 and less than or equal to 15	11.7	4.6	14.3	28.6	7.2
Greater than 15	13.7	5.2	16.3	32.5	8.5
Currency Risk Group 2 volatility buffers					
Up to 3	8.5	3.9	9.8	19.5	5.2
Greater than 3 and less than or equal to 5	12.4	5.2	15.0	29.3	7.8
Greater than 5 and less than or equal to 10	15.0	5.9	17.6	35.1	9.1
Greater than 10 and less than or equal to 15	17.6	7.2	21.5	42.9	11.1
Greater than 15	20.8	7.8	24.7	48.8	13.0
Currency Risk Group 3 volatility buffers					
Up to 3	11.1	5.2	13.0	26.0	6.5
Greater than 3 and less than or equal to 5	16.3	6.5	19.5	39.0	10.4
Greater than 5 and less than or equal to 10	19.5	7.8	23.4	46.8	11.7
Greater than 10 and less than or equal to 15	23.4	9.1	28.6	57.2	14.3
Greater than 15	27.3	10.4	32.5	65.0	16.9

Replacement Option 1 Volatility Buffer By Currency Risk Group (% Of Notional) For Supported Securities Rated 'A+' Or Lower					
	Interest rate swaps (%)		Cross currency swaps (%)		
Swap tenor—weighted-average life (years)	Fixed to floating	Floating to floating	Fixed to floating	Fixed to fixed	Floating to floating
Currency Risk Group 1 volatility buffers					
Up to 3	2.6	1.2	3.0	6.0	1.5
Greater than 3 and less than or equal to 5	3.8	1.5	4.5	9.0	2.4
Greater than 5 and less than or equal to 10	4.5	1.8	5.4	10.8	2.7
Greater than 10 and less than or equal to 15	5.4	2.1	6.6	13.2	3.3
Greater than 15	6.3	2.4	7.5	15.0	3.9
Currency Risk Group 2 volatility buffers					
Up to 3	3.9	1.8	4.5	9.0	2.4
Greater than 3 and less than or equal to 5	5.7	2.4	6.9	13.5	3.6
Greater than 5 and less than or equal to 10	6.9	2.7	8.1	16.2	4.2
Greater than 10 and less than or equal to 15	8.1	3.3	9.9	19.8	5.1
Greater than 15	9.6	3.6	11.4	22.5	6.0
Currency Risk Group 3 volatility buffers					
Up to 3	5.1	2.4	6.0	12.0	3.0
Greater than 3 and less than or equal to 5	7.5	3.0	9.0	18.0	4.8
Greater than 5 and less than or equal to 10	9.0	3.6	10.8	21.6	5.4
Greater than 10 and less than or equal to 15	10.8	4.2	13.2	26.4	6.6
Greater than 15	12.6	4.8	15.0	30.0	7.8

Replacement Option 2 Volatility Buffer By Currency Risk Group (% Of Notional) For Supported Securities Rated 'AAA'					
	Interest rate swaps (%)		Cross currency swaps (%)		
Swap tenor—weighted-average life (years)	Fixed to floating	Floating to floating	Fixed to floating	Fixed to fixed	Floating to floating
Currency Risk Group 1 volatility buffers					
Up to 3	3	2	7	12	3
Greater than 3 and less than or equal to 5	4	2.5	8	13	4
Greater than 5 and less than or equal to 10	5	3	9	14	4.5
Greater than 10 and less than or equal to 15	6	3.5	9.5	15	5
Greater than 15	7	4	10.5	16	5.5
Currency Risk Group 2 volatility buffers					
Up to 3	5	3.5	11	18	5
Greater than 3 and less than or equal to 5	6	4	12	20	6
Greater than 5 and less than or equal to 10	8	4.5	14	21	7
Greater than 10 and less than or equal to 15	9	5.5	15	23	8
Greater than 15	11	6	16	24	9
Currency Risk Group 3 volatility buffers					
Up to 3	6	4	14	24	6
Greater than 3 and less than or equal to 5	8	5	16	26	8
Greater than 5 and less than or equal to 10	10	6	18	28	9
Greater than 10 and less than or equal to 15	12	7	19	30	10
Greater than 15	14	8	21	32	11

Replacement Option 2 Volatility Buffer By Currency Risk Group (% Of Notional) For Supported Securities Rated In The 'AA' Category					
	Interest rate swaps (%)		Cross currency swaps (%)		
Swap tenor—weighted-average life (years)	Fixed to floating	Floating to floating	Fixed to floating	Fixed to fixed	Floating to floating
Currency Risk Group 1 volatility buffers					
Up to 3	2.0	1.3	4.6	7.8	2.0
Greater than 3 and less than or equal to 5	2.6	1.6	5.2	8.5	2.6
Greater than 5 and less than or equal to 10	3.3	2.0	5.9	9.1	2.9
Greater than 10 and less than or equal to 15	3.9	2.3	6.2	9.8	3.3
Greater than 15	4.6	2.6	6.8	10.4	3.6
Currency Risk Group 2 volatility buffers					
Up to 3	3.3	2.3	7.2	11.7	3.3
Greater than 3 and less than or equal to 5	3.9	2.6	7.8	13.0	3.9
Greater than 5 and less than or equal to 10	5.2	2.9	9.1	13.7	4.6
Greater than 10 and less than or equal to 15	5.9	3.6	9.8	15.0	5.2
Greater than 15	7.2	3.9	10.4	15.6	5.9
Currency Risk Group 3 volatility buffers					
Up to 3	3.9	2.6	9.1	15.6	3.9
Greater than 3 and less than or equal to 5	5.2	3.3	10.4	16.9	5.2
Greater than 5 and less than or equal to 10	6.5	3.9	11.7	18.2	5.9
Greater than 10 and less than or equal to 15	7.8	4.6	12.4	19.5	6.5
Greater than 15	9.1	5.2	13.7	20.8	7.2

Replacement Option 2 Volatility Buffer By Currency Risk Group (% Of Notional) For Supported Securities Rated 'A+' or Lower					
	Interest rate swaps (%)		Cross currency swaps (%)		
Swap tenor—weighted-average life (years)	Fixed to floating	Floating to floating	Fixed to floating	Fixed to fixed	Floating to floating
Currency Risk Group 1 volatility buffers					
Up to 3	1.0	1.0	2.1	3.6	1.0
Greater than 3 and less than or equal to 5	1.2	1.0	2.4	3.9	1.2
Greater than 5 and less than or equal to 10	1.5	1.0	2.7	4.2	1.4
Greater than 10 and less than or equal to 15	1.8	1.1	2.9	4.5	1.5
Greater than 15	2.1	1.2	3.2	4.8	1.7
Currency Risk Group 2 volatility buffers					
Up to 3	1.5	1.5	3.3	5.4	1.5
Greater than 3 and less than or equal to 5	1.8	1.5	3.6	6.0	1.8
Greater than 5 and less than or equal to 10	2.4	1.5	4.2	6.3	2.1
Greater than 10 and less than or equal to 15	2.7	1.7	4.5	6.9	2.4
Greater than 15	3.3	1.8	4.8	7.2	2.7
Currency Risk Group 3 volatility buffers					
Up to 3	1.8	2.0	4.2	7.2	2.0
Greater than 3 and less than or equal to 5	2.4	2.0	4.8	7.8	2.4
Greater than 5 and less than or equal to 10	3.0	2.0	5.4	8.4	2.7
Greater than 10 and less than or equal to 15	3.6	2.2	5.7	9.0	3.0
Greater than 15	4.2	2.4	6.3	9.6	3.3

Currencies By Risk Groups**		
Currency	Single-currency swap[§]	Cross-currency swap
U.S. dollar	1	1
Euro	1	1
Japanese yen	1	1
British pound	1	1
Canadian dollar	1	1
Australian dollar	1	1
Danish krone	1	1
Norwegian krone	1	1
Swedish krona	1	1
Swiss Franc	1	1
New Zealand dollar	1	1
Singapore dollar	1	1
Hong Kong dollar	2	2
New Taiwan dollar	2	2
Korean won	3	3
Mexican peso	3	4
South African rand	3	4
Russian ruble	4	4

** Classifications may change as the relevant analytical factors change, and this framework can be applied to other currencies that have only yet been classified.

§ For example, interest rate and basis swaps.

*Source: Standard & Poor's

EXHIBIT 4*

Additional Collateral Posting Standards For A Counterparty Failure To Replace Itself Or Remedy (Where There Is No ATE)

Time since the event	Additional percentage of notional amount per week
Within 1-4 weeks	0.0%
Within 5-8 weeks	1.0%
Within 9-12 weeks	2.0%
After 12 weeks	2.5%

A maximum potential rating is based upon the expectation that a Swap Counterparty will post such amounts up to 100% of outstanding notional amount. Caps on the additional amounts will result in a reduction in the maximum potential rating as follows:

- One notch for a cap of 75% of notional,
- Two notches for a cap of 50% of notional, and
- Three notches for a cap of 25% of notional.

*Source: Standard & Poor's

EXHIBIT 5*

Currency Advance Rates For Collateral With Currency Exposure For 'AAA' Rated Securities

	U.S. dollar	Euro	Japanese yen	British pound	Canadian dollar	Australia n dollar	Danish krone	Norwegian krone	Swedish krona	Swiss Franc	New Zealand dollar	Singapore dollar	Hong Kong dollar	New Taiwan dollar
U.S. dollar		92.5	92.0	94.0	95.0	92.0	92.5	92.0	92.0	92.0	91.5	95.0	98.5	96.0
Euro			87.5	94.0	90.5	92.0	86.0	86.0	86.0	86.0	91.5	90.5	92.5	91.5
Japanese yen				89.0	91.5	87.0	91.0	90.5	91.0	91.0	87.0	92.5	92.0	91.5
British pound					91.5	92.0	88.5	88.5	88.0	88.0	91.5	92.0	94.0	93.0
Canadian dollar						89.0	92.5	92.0	92.0	92.0	89.0	94.0	95.0	94.0
Australian dollar							87.5	87.0	87.0	87.0	94.5	90.0	92.0	91.0
Danish krone								95.0	95.0	96.5	87.0	92.5	92.5	92.0
Norwegian krone									94.5	94.5	87.0	92.0	92.0	92.0
Swedish krona										94.5	86.5	92.0	92.0	91.5
Swiss Franc											87.0	92.0	92.0	91.5
New Zealand dollar												89.5	91.5	90.5
Singapore dollar													95.0	94.5
Hong Kong dollar														96.0

Currency Advance Rates For Collateral With Currency Exposure For Securities Rated In The 'AA' Category

	U.S. dollar	Euro	Japanese yen	British pound	Canadian dollar	Australian dollar	Danish krone	Norwegian krone	Swedish krona	Swiss Franc	New Zealand dollar	Singapore dollar	Hong Kong dollar	New Taiwan dollar
U.S. dollar		93.5	92.5	94.5	95.5	93.0	93.5	93.0	93.0	93.0	92.5	95.5	99.0	96.5
Euro			89.0	94.5	91.5	92.5	87.5	88.0	88.0	87.5	92.5	91.5	93.5	92.5
Japanese yen				90.0	92.5	89.0	92.0	91.5	92.0	92.0	88.5	93.5	92.5	92.5
British pound					92.5	93.0	89.5	89.5	89.5	89.5	92.5	93.0	94.5	93.5
Canadian dollar						90.5	93.0	93.0	93.0	92.5	90.5	94.5	95.5	94.5
Australian dollar							89.0	88.5	88.5	88.5	95.0	91.0	93.0	92.0
Danish krone								95.5	95.5	97.0	88.5	93.0	93.5	93.0
Norwegian krone									95.0	95.0	88.5	92.5	93.0	92.5
Swedish krona										95.0	88.5	93.0	93.0	92.5
Swiss Franc											88.5	93.0	93.0	92.5
New Zealand dollar												90.5	92.5	91.5
Singapore dollar													95.5	95.0
Hong Kong dollar														96.5

Currency Advance Rates For Collateral With Currency Exposure For Securities Rated 'A+' Or Lower														
	U.S. dollar	Euro	Japanese yen	British pound	Canadian dollar	Australian dollar	Danish krone	Norwegian krone	Swedish krona	Swiss Franc	New Zealand dollar	Singapore dollar	Hong Kong dollar	New Taiwan dollar
U.S. dollar		94.0	93.0	95.0	96.0	93.5	94.0	93.5	93.5	93.5	93.0	96.0	99.5	97.0
Euro			89.5	95.0	92.0	93.0	88.5	88.5	88.5	88.0	93.0	92.0	94.0	93.0
Japanese yen				90.5	93.0	89.5	92.5	92.0	92.5	92.5	89.0	94.0	93.0	93.0
British pound					93.0	93.5	90.0	90.0	90.0	90.0	93.0	93.5	95.0	94.0
Canadian dollar						91.0	93.5	93.5	93.5	93.0	91.0	95.0	96.0	95.0
Australian dollar							89.5	89.0	89.0	89.0	95.5	91.5	93.5	92.5
Danish krone								96.0	96.0	97.5	89.0	93.5	94.0	93.5
Norwegian krone									95.5	95.5	89.0	93.0	93.5	93.0
Swedish krona										95.5	89.0	93.5	93.5	93.0
Swiss Franc											89.0	93.5	93.5	93.0
New Zealand dollar												91.0	93.0	92.0
Singapore dollar													96.0	95.5
Hong Kong dollar														97.0

*Source: Standard & Poor's