Framework for De-Linking Hedge Counterparty Risks from Global Structured Finance Cashflow Transactions Moody's Methodology

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SUMMARY

Moody's Investors Service ("Moody's") has revised the framework that it will apply when reviewing hedges in connection with highly-rated structured finance cashflow transactions ("cashflow transactions").

In general, where a hedge counterparty (a "Counterparty") agrees at the outset to adhere to rating triggers and remedies that are of a nature substantially as specified in this Framework, Moody's opinion is that that this would substantially mitigate the impact of Counterparty exposure on the expected loss of the cashflow transaction. As such, the contribution of the Counterparty to the expected loss of the cashflow transaction need not be modeled and the Counterparty credit risk is effectively "de-linked" from the credit risk of the cashflow transaction.

This Framework sets out the criteria that Moody's will take into account in determining whether to de-link the Counterparty risk. Certain aspects of this framework need not be applied where a cashflow transaction retains linkage to the ratings of a Counterparty. In this case, the linkage is disclosed in our reports.

The framework is organized as follows:

- *Table 1* contains the Moody's ratings pertaining to:
  - the minimum level for an institution to provide a hedge to a cashflow transaction without posting collateral; and
  - rating triggers, upon the occurrence of which the Counterparty must take certain actions to further de-link its credit risk from that of the transaction.
- *Tables 2A* & *2B* set out the main contractual sanctions applicable to a Counterparty for failure to perform the applicable action(s) upon being downgraded to a given trigger level; the timing for delivery of certain documents; certain necessary amendments to hedge documentation; and the guidelines for payment of hedge periodic and termination payments.
- *Tables 3A* & *3B* set out guidelines for application, disapplication and modification of hedge events of default and termination events.
- *Tables 4A-1* to *4B-3* list the respective collateral amounts to be posted by a Counterparty with ratings at the First Trigger and Second Trigger.
- *Tables 5A*, *5B*, *5C* & *5D* list the Valuation Percentages applicable to posted collateral for liabilities issued by a cashflow transaction in Euro, U.K. sterling, U.S. dollars and Australian dollars, respectively.

The Framework (i.e. *Tables 1-5* taken together) supplants Moody's previous framework, as contained in "Swaps in European Term Securitisations", May 21, 2002 and "Moody's Approach for Rating Thresholds of Hedge Counterparties in CDO Transactions", October 23, 2002.

The Framework is merely intended to explain the circumstances under which Moody's will de-link the credit risk of a Counterparty from the credit

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risk associated with a cashflow transaction when assessing such a cashflow transaction and is not intended for any other purpose. In particular, the Framework is not intended to be legal or tax advice or advice on how to draft transaction documentation to any person (including any Counterparty or SPV) and it does not take into account the specific requirements of any person. Such persons should take their own legal and tax advice when structuring, negotiating and documenting such transactions.

1 Marlow Gereluk contributed to the publication.

FRAMEWORK FOR DE-LINKING COUNTERPARTY RISKS FROM STRUCTURED FINANCE CASHFLOW TRANSACTIONS

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FRAMEWORK FOR DE-LINKING COUNTERPARTY RISKS FROM STRUCTURED FINANCE CASHFLOW TRANSACTIONS

I INTRODUCTION

Moody's has revised its framework for substantially mitigating the expected losses added by a hedge counterparty ("Counterparty") to those of a structured finance cashflow transaction ("cashflow transaction") involving a special purpose vehicle (an "SPV")[2]. This framework is intended for use where Moody's has assigned initial ratings of **Aaa**, **Aa1**, **Aa2** and/or **Aa3**[3] to the liabilities of a cashflow transaction without having modeled the additional expected losses associated with the Counterparty.

Most aspects of this framework are not intended for use where a cashflow transaction retains linkage to the expected losses of a Counterparty, although certain components, such as those relating to Events of Default, tax provisions and priority of termination payments, may apply. Linkage of a cashflow transaction to a Counterparty is disclosed in Moody's reports.

As previously, the framework uses the Moody's rating of a Counterparty to place it into one of three categories, each of which carries distinct obligations. The revisions simplify these three categories and specify how the respective obligations associated with each category are to be carried out. The revisions include:

- standardized categories of ratings;
- removal of watch language in assigning rating categories;
- execution of all ISDA documentation incorporating the framework at close, including a Collateral Support Agreement ("CSA") that incorporates collateral amounts and valuation percentages;
- clarification of the position of periodic and termination payments made by a cashflow transaction to a Counterparty;
- amendments to standard ISDA language where necessary to address certain operational limitations of cashflow transactions and also to maximize likelihood of obtaining replacement;
- application of Additional Termination Events and Events of Default to both a Counterparty and a cashflow transaction; and
- elimination of Rating Agency Confirmation by Moody's prior to a Counterparty obligation being activated.

II PURPOSE OF FRAMEWORK

The framework should enable an eligible counterparty to assess the cost of providing a hedge to a cashflow transaction as accurately as possible. The framework also seeks to limit these costs to only those which cannot be avoided in de-linking the credit risk of a Counterparty from a cashflow transaction, as these costs are borne ultimately by the cashflow transaction itself. For instance, a Counterparty reserves against its potential obligation to post collateral or to arrange its own replacement and will incorporate the cost of doing so into its bid for a hedge. But where these obligations are not specified, a Counterparty must add an uncertainty factor into its bid or even refrain from bidding altogether. Either outcome will result in a cashflow transaction paying more for its hedge without receiving any additional benefit.

Unnecessary costs may also accrue at close wherever a Counterparty is obliged to re-establish the framework when bidding on otherwise similar hedges. This may occur if the framework is not sufficiently precise, or if it is not applied equally to all counterparties. Lastly, operational costs may be larger than necessary for both a Counterparty that has experienced a downgrade and a cashflow transaction if the Counterparty obligations must first be established before procedures can be implemented to meet them.

To eliminate these distortions, the framework specifies Counterparty obligations upfront and does not contemplate their being supplanted in the future by "other such remedies as may be agreed at a later date". Alternatives to this framework will be considered at closing where the relevant provisions are already in place, rather than being left open-ended for future specification.

2 Excludes synthetic transactions, such as credit default swaps and synthetic CDOs, inflation swaps and other contracts supported by ISDA documentation, including but not limited to GICS, where the contract serves a more integral role than hedging payment mismatches between assets and liabilities.
3 A follow-up paper will address criteria for liabilities with lower ratings.

Address Differences Between Cashflow Transactions and Other Hedge Market Participants

Moody's observes that the form of agreement generally used to document hedges has been created for use by institutional market parties[4] that trade derivative products much more actively than cashflow transactions. SPVs typically do not have the resources or capacity to carry out many of their rights and obligations unassisted under these hedge agreements. Further, the agents of these SPVs and their debtholders (such as trustees) may not always have the mandate or resources to fully protect the interests of the cashflow transaction under the hedges. Therefore, “market standard” contractual terms in hedges involving institutional market parties are not always appropriate for hedges with cashflow transactions. The framework uses market standards wherever possible and adjusts them where necessary to address the limited capacities of an SPV. The principal adjustment occurs with respect to a Counterparty paying for its own replacement; several others follow from the potential time needed for replacement to occur and reliance on the Counterparty to discharge this and certain other tasks.

Major participants in the hedge market typically trade a portfolio of hedges that is marked-to-market on a daily basis and re-balanced frequently. These institutions maintain trading lines with multiple participants and are indifferent between maintaining any single hedge with an existing counterparty, assigning it to a new one and terminating it altogether to pursue an alternative hedging strategy. Hedge documentation addresses deterioration in the credit risk of a counterparty through collateral and termination provisions based on rating or other credit measures. But institutions are also free to negotiate a hedge termination at any time and most have the resources to do so. As a result, credit risk in the hedge market is generally viewed as existing over a very short horizon and many participants accept collateral amounts, valuation percentages and assignment provisions commensurate with this view.

In contrast, a cashflow transaction typically executes one or only a few hedges over its life and is tied much more closely to an individual Counterparty. Persistent mismatches are generally identified at close and offset by hedges that are expected to remain in place for their scheduled lives[5] without requiring the cashflow transaction to make any unforeseen payments. Few resources exist to address hedging issues after close, but any interruption in a hedge will expose the cashflow transaction to market risk and, if it continues over a payment date, may trigger irrevocable changes in the capital structure as well. Unforeseen costs would accrue even if a cashflow transaction was able to terminate the original hedge at mid-market while simultaneously entering into an identical hedge with a new Counterparty, in the likely event that the terms of the two transactions did not offset each other completely. A replacement bid by a new Counterparty would be expected to add costs for funding, conforming to this framework and facing the cashflow transaction, as well as dealing spreads, to the mid-market valuation.

Replacement Drives the Framework, but Cannot Be Guaranteed

The framework intends for the original Counterparty to arrange and pay for its replacement, where its ratings have reached the Second Trigger (**Baa1** or below and/or **P-3** or are withdrawn). Counterparties ask for at least 30 business days to effect replacement, to include as many eligible parties as possible, but counsel that more time may be required in individual cases. Further, there is no assurance that each cashflow transaction requiring replacement will obtain it, as no mechanism exists to oblige an eligible institution to bid on any single hedge, let alone each one provided by a major institution. Instead, an eligible institution would be expected to examine each hedge separately, decide which warranted bids, price those accordingly and pass on the remainder.

Many aspects of the framework are intended to maximize the likelihood of replacement occurring. The Second Trigger is set at a level which is high enough to ensure that a Counterparty begins replacing itself where possible, prior to the emergence of potential inhibitors to its ability to do so. The collateral amounts and valuation percentages at the Second Trigger incorporate 30 additional business days into their measurement periods, to provide sufficient resources and time for the SPV to pay a replacement bid directly, should that be necessary. And the definition of Market Quotation is amended to enable replacement to occur wherever at least one eligible bidder is ready to step into an existing hedge. Moody's believes that these provisions, taken together with the other sanctions applicable upon loss of Second Trigger, will provide sufficient incentive for the Counterparty to replace itself in as many cases as possible. In the remaining cases where the original Counterparty cannot be replaced imme-

4 The 1992 Master Agreement (Multicurrency - Cross Border) published by the International Swaps and Derivatives Association, Inc. (the “ISDA agreement”) is the form of agreement generally used by the market for hedges in cashflow transactions. This report focuses on hedges which are evidenced by this form of agreement; the use of the 2002 Master Agreement (Multicurrency - Cross Border) for hedges in cashflow transactions will be the subject of an upcoming report.

5 Governing documents of most cashflow transactions enable an existing hedge to be adjusted, or new one entered into, if modeling shows the expected losses of rated liabilities to be unimpaired by the proposed change.

diately following its downgrade to the Second Trigger, it continues to provide the hedge and seek replacement, while posting the Second Trigger Collateral Amount, until either replacement occurs or the hedge runs off.

III APPLICATION OF FRAMEWORK

The principal features of the revised framework (hereafter "framework") are contained in *Tables 1-5*, beginning on page 14.

The framework was developed for hedges denominated in major currencies, including Australian, Canadian, New Zealand and U.S. dollars, euro, Danish krone, Swedish krona, Norwegian krone, Swiss franc, U.K. sterling, and, in some circumstances, Japanese yen. Adaptation of the framework will be required for hedges denominated in other currencies, such as those of emerging market countries, where underlying assumptions regarding market liquidity, volatility, potential currency controls, etc. differ from those used here.

Moody's intends for this framework to be used as widely as possible across most types of cashflow transactions, rating centers and the universe of counterparties. This universe now includes money-center, regional and investment banks, as well as specialized entities such as insurance subsidiaries and, in limited instances, highly-rated derivative product companies. Other types of institutions may also provide hedges to rated transactions; the framework will apply equally to them. Existing rated transactions may choose to adopt this framework, if permitted to do so by their governing documents.

A Caveat Regarding the Framework

The broad application of this framework necessitates mention of a caveat pertaining to rating stability of cashflow transactions whose Counterparty has been downgraded. This framework mitigates the expected losses of the vast majority of hedges as of their close, but cannot contemplate each combination of market risk, collateral sufficiency, likelihood of obtaining replacement and Counterparty performance that may emerge post-close. Moody's will continue to monitor such cashflow transactions and will assess whether rating actions are warranted in individual cases, even if the Counterparty is fully compliant with all obligations detailed here. However, both the incidence and severity of any rating actions should be much less pronounced than if this framework were not in place.

IV RATING CATEGORIES

This framework distinguishes a Counterparty by rating only, not organizational type, domicile or other factor. Ratings are grouped into one of three categories, each of which confers distinct obligations intended to substantially mitigate the expected losses associated with its respective range of ratings. Changes in ratings are recognized following publication of an upgrade, downgrade or withdrawal, but not by being placed on a watchlist.

Table 1 lists the three possible categories into which the rating of a Counterparty will fall. A Counterparty must have a long-term rating[6], as this addresses its expected loss over the same horizon as that of a rated transaction. However, the information contained in a short-term rating, where one exists, is not ignored. A **P-1** rating will defer a First Trigger from being reached until a long-term rating equals **A3**, compared with **A2** in the absence of a short-term rating. Conversely, a short-term rating of **P-2** or **P-3** obliges a Counterparty to assume the obligations associated with the First or Second Trigger, respectively, even if its long-term rating does not.

Tables 2A & 2B list the Counterparty obligations associated with each category. Upon entering a hedge, a Counterparty would execute agreements necessary for it to perform its obligations, including those activated upon its rating reaching either the First Trigger or Second Trigger, such as a Schedule to Master incorporating provisions consistent with this framework, a credit support annex, and, where necessary to support the Counterparty's rating above the First Trigger at time of closing, letters of credit or guarantees[7]. None of these obligations may be contingent upon issuance of Rating Agency Confirmation by Moody's prior to being activated. At this stage, a Counterparty should either have ratings above the First Trigger, or be prepared to post collateral immediately. In contrast, a Counterparty with a rating below the Second Trigger providing any new hedges would be inconsistent with the assumption that it brings no additional expected losses to the cashflow transaction. In addition to not providing any new hedges, such a Counterparty should seek replacement or equivalent for each hedge already on its books.

6 Long-term rating refers to a senior unsecured rating.
7 The framework contemplates possible use of a guarantee by the Counterparty after close, as an acceptable remedy should the Counterparty be downgraded to either the First Trigger or Second Trigger. Such a guarantee may never be needed, and thus is not expected to be in place at Close.

Following a grace period of 30 business days after each of the Counterparty and any guarantor of the Counterparty has reached the “First Trigger” rating level, the Counterparty should post the First Trigger Collateral Amount listed in *Table 4A-1*, unless and until it (or its guarantor) is upgraded above the First Trigger, replacement occurs or a suitable guarantee is provided by a sufficiently-rated guarantor. At this level, a failure by the Counterparty to post the required collateral should constitute an Additional Termination Event under the hedge.

Upon each of the Counterparty and any guarantor of the Counterparty reaching the “Second Trigger” rating level, the Counterparty must use commercially reasonable efforts to, as soon as reasonably practicable, replace itself or procure a sufficiently-rated guarantor of its obligations under the hedge. In addition, following a grace period of 30 business days, the Counterparty should post the Second Trigger Collateral Amount listed in *Table 4B-1* (which will represent an increase from First Trigger Collateral Amount), unless and until it (or its guarantor) is upgraded above the Second Trigger, replacement occurs or a suitable guarantee is provided by a sufficiently-rated guarantor. The Second Trigger Collateral Amount must be posted so as to be in place if needed to fund replacement. Accordingly, failure to post the Second Trigger Collateral Amount should constitute an Event of Default under the hedge, rather than an Additional Termination Event. The latter would not provide a Counterparty with sufficient incentive to post the second Trigger Collateral Amount, as refusal to do so would simply result in a potential termination of the hedge — a less costly outcome than meeting its obligation to replacing itself.

V PAYMENT PRIORITIES

Tables 2A & *2B* also address the seniority of payments made by a cashflow transaction to a Counterparty. The seniority of payments to the Counterparty is a key tool in mitigating credit risk for both the Counterparty and cashflow transaction. Payments to a counterparty are generally senior to all rated debt. For this reason, it is usually important that payments to the Counterparty are not accelerated or increased solely due to reasons pertaining to the Counterparty.

Periodic Hedge Payments

The SPV is usually required to make regular periodic payments to the Counterparty under the hedge. The SPV can usually make these payments to the Counterparty intra-period, as and when the SPV is scheduled to receive such funds, depending upon the payees who would normally rank senior to the Counterparty.

In all other cases, periodic hedge payments should usually be made on rated debt interest payment dates, in accordance with the priority of payments. Periodic hedge payments to a counterparty may be made from both interest proceeds and principal proceeds and are generally senior to all rated debt.[8]

Collateral Posting and Return while Hedge in Effect

An SPV or its arranger should establish a separate collateral account at closing, secured to its Trustee, for the sole purpose of holding collateral that may be posted at a later date, should the ratings of the Counterparty be downgraded to one of the triggers in this framework.

Interest may be payable by the cashflow transaction to the Counterparty in respect of cash amounts posted to the cashflow transaction. However, the amount payable should either be (a) an amount equal to the amount actually earned on such amounts; or (b) an amount equal to the contractual rate of interest that the cashflow transaction is contractually entitled to receive on such amounts from its own bank account. An amount equal to all distributions received on securities posted to the cashflow transaction may also be payable to the Counterparty.

Calculation should generally be made in the same currency as that of the rated liabilities, particularly for cross-currency hedges addressing mismatches between assets and liabilities. However, for certain single-currency hedges addressing asset mismatches only, calculation may be made in the currency of the hedge itself, even where different from that of the rated liabilities.

The threshold for transferring collateral to the cashflow transaction should be set at zero whenever collateral is required to be posted, and minimum transfer amounts and return amounts should be set at USD 100,000 or its equivalent. As the cashflow transaction does not have the capacity to make calculations of the hedge mid-market valuation, DV01, etc., the Counterparty should usually be required to calculate collateral requirements. For the same reasons, demands for collateral should be “deemed” to occur either daily or weekly, consistent with the Collateral Amounts and Valuation Percentages specified in the CSA (assuming that additional collateral is payable under the credit support documentation).

8 Some cross-currency hedges, by their nature, may result in payments to the counterparty being pari-passu with those of senior debt

Movements of collateral, either into or out of the separate collateral account, occur directly with the Counterparty outside the general payment waterfall, as instructed by the Calculation Agent (as mentioned above, generally the Counterparty itself).

Hedge Termination Payments

The ISDA agreement states that if the hedge terminates early, a termination payment will be payable by one party to the other. The party that is "in-the-money" is usually entitled to a payment from the party that is "out-of-the-money", regardless of the reasons for the early termination, net of unpaid amounts under the hedge[9]. This payment is calculated as the sum of: (a) the net of all unpaid amounts owing by the parties to each other, and (b) the mark-to-market ("MtM") of the hedge as at the Early Termination Date. Note that each of (a) and (b) may be positive or negative with respect to the cashflow transaction.

If the termination payment is negative for the cashflow transaction, it is required to make a payment to the Counterparty. This payment can be substantial, and is usually expected to be paid out of interest proceeds and, if necessary, principal proceeds of the cashflow transaction. To ensure sufficient Counterparty risk de-linkage, this payment should only be made on rated debt payment dates, and only once all amounts senior thereto in the respective priority of payments have been made, particularly when the Counterparty is the Defaulting Party or sole Affected Party. See *Table 2B* for the priority in which termination payments to the Counterparty should be made. In addition, where the MtM component of the hedge is negative (i.e. payable by the SPV to the Counterparty) and is subordinated to noteholders, it should not be set-off against any unpaid amount owing by the Counterparty to the SPV[10]. However, if replacement occurs, the amount received from the replacement Counterparty in consideration for entering into the replacement hedge is applied in satisfaction of the MtM payment and paid to the original Counterparty outside the waterfall of payments.

Collateral Return Following Hedge Termination

Collateral due back to the Counterparty following a termination (in excess of that which is necessary to cover any net unpaid amount[11] owing to the SPV and any amount paid by the SPV to enter into a replacement hedge) may be paid or transferred back directly to the Counterparty, outside the general payment waterfall.

Replacement Receipts

It is generally acceptable for amounts paid by a replacement Counterparty to be made directly to the outgoing Counterparty to the extent of any payment due to such outgoing Counterparty.

VI EVENTS OF DEFAULT AND TERMINATION EVENTS

The ISDA agreement provides for two main ways for parties to terminate the related hedges: "Events of Default" and "Termination Events".

Events of Default are intended to allow the non-defaulting party to terminate the hedge where there is a fundamental failure in respect of the other party; where the "Defaulting Party" is unable to perform one or more of its fundamental obligations under the hedge. At common law, a party generally only has the right to sue for damages when the other breaches its obligations. The ISDA Event of Default mechanics were intended to instead allow the non-Defaulting Party to simply terminate the agreement, rather than be forced through costly and uncertain court proceedings.

Termination Events are intended to allow one or both parties to the hedge to terminate the hedge where both parties are still able to perform their obligations, but it has become undesirable for one or both parties to continue with the hedge. These circumstances usually arise from changes in law or changes in circumstances of the parties, making it costly or prohibitive to continue with the hedge.

Both Events of Default and Termination Events result in a potential early termination of the hedge and a termination payment arising under s. 6(e) of the ISDA agreement. However, there are many differences between Events of Default and Termination Events, including:

- Events of Default entitle the non-Defaulting Party to stop paying the Defaulting Party immediately (s. 2.(a)(iii)).

9 A party is "in-the-money" in a hedge at a given time to the extent that it has inherent value in the hedge; i.e., the present value of all future expected receipts to which it is entitled under the hedge is greater than the present value of all future expected payments that it is required to make under the hedge, calculated at then-current rates. Conversely, a party is "out-of-the-money" to the extent that the present value of future receipts is less than the present value of future payments at then-current rates.

10 This bifurcation of payments is not required if the ISDA Credit Support Annex (English law) is used.

11 Without regard to any deemed unpaid amount under paragraph 6 of the ISDA Credit Support Annex (English law).

This is not the case for Termination Events.

- Events of Default may cause the non-Defaulting Party to cross-default under other hedge or debt obligations; therefore, parties will generally take obligations which, by non-performance, cause an Event of Default much more seriously.
- Under s. 11 of the Master Agreement, the non-Defaulting Party is entitled to be compensated for its reasonable out-of-pocket expenses incurred in connection with enforcing its rights under the hedge in connection with an Event of Default by the Defaulting Party. This is not the case for Termination Events.

The ISDA agreement is designed for hedges between large institutions that are able to look after their own interests. Such institutions have the resources to provide timely notices, monitor Counterparty circumstances and calculations and to terminate the hedge when it is advisable to do so. However, when one of the parties to a hedge is an SPV in a cashflow transaction, that SPV may not have adequate resources to do these things, but instead rely upon the Counterparty's calculations, notices and goodwill. It is therefore necessary to amend certain of the Events of Default and Termination Events accordingly to reflect these realities.

All ISDA-standard Events of Default should generally apply to the Counterparty. The Breach of Agreement Event of Default should apply to the Counterparty, since it has many vital non-financial obligations under the hedge, including (a) the obligation to maintain all authorizations; (b) the obligation to comply with all applicable laws; (c) the obligation to calculate the ongoing collateral owing to the cashflow transaction (if the Counterparty has been downgraded at least to the First Trigger); and (d) the obligation to make other calculations for the purposes of the hedge. Also, the time and expense of suing the Counterparty would usually be inconsistent with the ratings provided to the cashflow transaction.

Similarly, the Misrepresentation Event of Default should usually apply to the Counterparty, since if the Counterparty does not have the capacity and authority to enter into the hedge, the cashflow transaction will likely suffer an economic loss. Also, even though the SPV might be able to sue the Counterparty for misrepresentation at common law, a court might view the disapplication of Misrepresentation against the Counterparty as evidence that these representations in s. 3(a)-(d) were intended to have no force and effect. In any event, the expense and time involved in a lawsuit are usually inconsistent with the ratings of debt instruments in cashflow transactions.

The Failure to Pay or Deliver Event of Default will generally apply to both the SPV and the Counterparty. So will the Bankruptcy Event of Default; however, it should be amended to reflect the fact that: (a) the SPV is potentially "insolvent" from the very start of the transaction; and (b) substantially all of the SPV's assets are subject to a security interest in favor of the trustee and are often held by a custodian. Further, the "soft" aspects of Bankruptcy should not apply to the SPV. It is usually more appropriate for the Counterparty to rely upon an Additional Termination Event which applies (with the SPV as Affected Party) when there has been an irrevocable acceleration of the rated debt or a redemption of the Notes (other than due to normal course structural features, e.g. paydown of rated debt to cure coverage tests in cashflow CDOs).

VII AMENDED ISDA TERMINATION PAYMENT CALCULATION MEASURE

Consistent with the principle of substantial mitigation of Counterparty risk, it is imperative that no material gap in hedge coverage arises as a result of an action giving rise either to an Event of Default by the Counterparty or an Additional Termination Event where the Counterparty has been designated as sole Affected Party. From the perspective of the cashflow transaction, therefore, the primary concern is not to be "compensated" for the termination of the hedge, but rather simply to have such amount as is necessary to pay a replacement Counterparty to assume the role of the original Counterparty in providing it. Ideally, replacement will occur through novation, so that the hedge will not be interrupted even as the original Counterparty bows out in favor of its replacement. To maximize the likelihood of the hedge continuing in these circumstances, the framework suggests adjustments to the termination payment calculation measure that incorporate the concept of "live bids", rather than representative ones, and that will result in a successful Market Quotation where there is at least one eligible party under this framework that has submitted a "live bid".

However, provision must also be made for cases where no replacement is available, but the hedge has been impaired as a result of an action giving rise either to an Event of Default by the Counterparty or an Additional Termination Event where the Counterparty has been designated as sole Affected Party. In these cases, a material gap in hedge coverage will have arisen or be imminent, and this gap will grow if the hedge continues with the original Counterparty. Should the SPV decide that its best option under these circumstances is to terminate the impaired hedge, even though it cannot be replaced, the mark-to-market component of a termination payment will revert to "Loss".

In this regard, the following amendments should be made in the related hedge agreement to the termination payment calculation measure where the Counterparty is the Defaulting Party or sole Affected Party (except termination for Illegality or Tax Event)[12]:

- "Live bids" to be made for a hedge on terms that are at least as beneficial (in all material respects) for the SPV as the current one, including rating triggers, credit support documentation and other components of this framework, to be determined by SPV, acting in a commercially reasonable manner.
- A "live bid" represents the amount which an eligible institution is willing to pay or receive to execute a replacement hedge with the cashflow transaction.
- Counterparty may also obtain "live bids", and must attempt to do so if required by the SPV.
- All "live bids" from eligible institutions considered, whether sourced by Counterparty or SPV.
- At any time at which two or more "live bids" are available, the SPV is entitled to accept only the "live bid" that is the most beneficial for the outgoing Counterparty.
- <u>Where replacement occurs on or before the Early Termination Date</u>, the actual replacement price paid to or by the new Counterparty is used to determine the "mark-to-market" component of a termination payment, even if only one "live bid" is obtained.
- <u>Where replacement does not occur on or before the Early Termination Date and at least one "live bid" is available</u>, the "live bid" that is the most beneficial for the outgoing Counterparty is used to determine the "mark to market" component of a termination payment.
- <u>Where replacement does not occur on or before the Early Termination Date and no "live bid" is available</u>, revert to "Loss".

Additional Termination Event at Second Trigger

Under the framework, a Counterparty with ratings at or below the Second Trigger seeks replacement with an eligible party or a guarantee of its hedge obligations, using "commercially reasonable" efforts to do so. Consistent with the goal of securing replacement in as many instances as possible, the framework also contemplates a parallel search for a replacement Counterparty by an SPV. As such, an SPV may declare an Additional Termination Event at any time beginning 30 business days after initial downgrade of a Counterparty's rating to the Second Trigger, provided at least one eligible institution is willing to submit a "live bid" to replace the hedge.

This Additional Termination Event may not be declared solely because a Counterparty has been downgraded to the Second Trigger. In the absence of an eligible party willing to submit a "live bid" to replace a hedge, or where no eligible parties that had expressed a willingness to submit "live bids" actually did so, the original Counterparty continues to provide the hedge, post the Second Trigger Collateral Amount and use "commercially reasonable" efforts to seek replacement or a guarantee. If, at some later date, the Counterparty has not obtained replacement or a guarantee and at least one "live bid" is submitted from an eligible institution, the SPV may at that time declare an Additional Termination Event, using the amended Market Quotation termination payment calculation measure, as described in preceding section.

The Additional Termination Event at the Second Trigger is unique among those using the amended Market Quotation termination payment calculation measure in that it may not revert to "Loss". The reasoning is that, while a Counterparty with ratings at the Second Trigger brings additional expected losses to the cashflow transaction, its downgrade alone does not cause a material interruption in hedge coverage. Rather, the Second Trigger Collateral Amount mitigates the additional expected losses and will be available should a material gap in hedge coverage arise later, while the ongoing obligation of the Counterparty to seek replacement or obtain a guarantee, combined with the Additional Termination Event at the Second Trigger, hold out the potential for replacement in the future.

Where SPV is Defaulting Party, Affected Party or Termination following Illegality or Tax Event

- Market Quotation without above adjustments

12 *Tables 3A* & *3B* list Events of Default and Termination Events as applicable to Counterparty and SPV.

VIII COLLATERAL AMOUNTS

Tables 4A-1 & *4B-1* list the collateral amounts for the First Trigger and Second Trigger, respectively. The collateral amount represents the potential value of a hedge over the relevant measurement period and is assembled from components routinely calculated by a Counterparty.

The collateral amount will vary for each hedge, depending on its type, remaining life and Counterparty rating. For any given hedge, a collateral amount will be greater for a Counterparty with ratings associated with the Second Trigger, compared with the First Trigger.

Calculation is made from the point of view of the cashflow transaction, in the same currency as its rated liabilities on at least a weekly basis. The collateral amount has a floor of zero whenever negative, i.e. the potential value of the hedge represents a liability, not an asset, to the cashflow transaction. At each such calculation date, the Counterparty posts no collateral.

Starting Point - Mid-Market Valuation of Hedge

The starting point in determining the potential value of a hedge over its relevant measurement period is its mid-market valuation at time of calculation. Typically, a Counterparty calculates the mid-market value of a hedge on a daily basis for many purposes, such as recording P&L, agreeing the value of the hedge with its end-users and posting collateral. Counterparty discretion in making these calculations is sharply curtailed both by its own internal controls and the liquid nature of many types of hedges.

Valuation of Transaction-Specific Hedges

An exception exists with respect to hedges with whose payment terms will vary in tandem with characteristics of the cashflow transaction itself (“transaction-specific hedges”). For instance, the hedge notional may be tied to the outstanding assets or liabilities or the pre-payment characteristics of either, rather than being established at close. Balance-guaranteed hedges, where the notional of the hedge adjusts over time to account for principal amortization, prepayments and defaults experienced on the asset side fall into this category, as do PIKKING swaps, hedges using band analysis and certain types of liquidity swaps, among others. Calculating a mid-market value for these transaction-specific hedges necessarily requires considerable resources and subjective judgment, with the result being more of a risk assessment unique to the Counterparty preparing it and less a valuation around which assessments by other parties will converge. The Second Trigger Collateral Amounts mitigate the range of valuations associated with transaction-specific hedges through a higher estimate of potential increase over the measurement period, rather than adjusting or scrutinizing the mid-market valuation itself.

Second Step - Potential Increase of Mid-Market Valuation of Hedge

The potential increase of the hedge valuation over the relevant measurement period is added to the initial mid-market valuation to produce the potential value of a hedge over its relevant measurement period. The framework uses “DV01”, an estimate of the change in the mid-market value of a hedge resulting from a one basis point change in the swap curve, to measure the potential increase. The DV01 is primarily sensitive to the remaining amortization of a hedge, but also incorporates sensitivity to the swap coupon or spread above LIBOR or other index. The risk department of a Counterparty routinely measures a DV01 in conjunction with a mid-market valuation to assess portfolio risk. Different methods may be employed to measure a DV01, with each producing a slightly different outcome. However, as these differences are generally not significant, the framework relies on the measure routinely prepared by the Counterparty, rather than specifying a standard DV01 calculation.

A Counterparty may need to make operational adjustments to enable its risk department to share the DV01 at each Calculation Date with its collateral department, but the cost of doing so should be offset by the efficiencies gained in measuring the potential increase for each hedge individually. However, the framework also provides tables[13] of the potential increase of a hedge by its weighted average life, to allow a Counterparty to calculate the collateral requirement without reference to DV01. These tables were derived by assigning conservative estimates of DV01 to each yearly increment of weighted average life.

The potential increase of an interest-rate swap is measured here by multiplying its DV01 by a specified number of basis points. DV01 is also used to estimate the potential increase of an interest-rate option, such as a cap, floor or swaption, although the multiplier increases to address the additional contributor of implied volatility. While a second risk measure, such as Vega, may address the impact of implied volatility more directly, the use of DV01 alone, when paired with a higher multiplier, serves several purposes. It simplifies the formula to deter-

13 Please see *Tables 4A-2*, *4B-2* & *4B-3*.

mine the potential increase of a hedge with optionality, limits the risk measures that a Counterparty transmits to its collateral department and increases the estimate of potential increase for a hedge with optionality, compared to a similar one without optionality.

The range of valuations associated with a transaction-specific hedge is also addressed through increasing the number of basis points multiplied by the DV01, compared to a hedge that is not transaction-specific.

The potential increase for a cross-currency hedge is treated primarily as a function of currency exposure, expressed as a percentage of the hedge notional of that leg denominated in the same currency as that of the rated liabilities of the cashflow transaction. The interest rate risk associated with cross-currency hedges is addressed by using a lower multiplier to DV01 than for straight interest rate hedges. The reasoning is that interest rate risk is a second-order impact that is only partially correlated with currency risk, As with single-currency hedges, a cross-currency hedge either with optionality, such as a cap, floor or swaption, or one that is transaction-specific, will use a higher multiplier for DV01 than a similar hedge without such features.

Estimating Potential Increases of Hedge Valuations

The potential increases for different types of hedges are obtained using an application of Moody's Market Value CDO Methodology®[14]. This application employs the Black-Scholes option pricing formula to calculate the expected loss of an individual type of hedge over a specified period of time. The approach is parametric and based on a two-state Markov model that recognizes volatility as tending to occur in clusters, rather than occurring randomly. An additional modification is made, to incorporate the expected loss of the Counterparty itself. Inputs include:

- market volatility of hedge type as estimated from historic data;
- number of days in relevant measurement period;
- Counterparty rating; and
- target rating of senior liabilities issued by cashflow transaction.

First Trigger Collateral Amounts

The First Trigger Collateral Amount is determined by summing two components:

- the mid-market value of the hedge; and
- the potential increase of the hedge over the relevant measurement period.

Here, the relevant measurement period equals the interval between posting dates[15] plus the number of days allowed for a cure period, generally five business days in total for daily posting and nine business days in total for weekly posting. No additional days are added to the measurement period, as the ratings associated with the First Trigger suggest a high likelihood that a Counterparty will meet each collateral call. This high likelihood of Counterparty performance constrains the First Trigger Collateral Amount in an additional way, as Moody's methodology credits it as a partial offset to market risk of the hedge.

Second Trigger Collateral Amounts

Second Trigger Collateral Amount is increased, compared with the First Trigger Collateral Amount, to compensate both for a longer measurement period and for the higher expected losses of ratings in this group. Essentially, the risk of Counterparty non-performance is no longer trivial when compared to the expected losses of the cashflow transaction, with the result that the Second Trigger Collateral Amount must be sufficient to pay for a replacement hedge, if necessary. Moody's Market Value CDO Methodology picks up this additional risk in two ways:

- the relevant measurement period expands by an additional 30 business days, compared with the First Trigger, to allow enough time for the SPV to arrange replacement, if necessary; and
- the lower rating of the Counterparty offsets the potential increase of a hedge to a much smaller degree, compared to ratings at the First Trigger.

Additional costs may accrue to a cashflow transaction as a result of Counterparty non-performance that are outside the scope of pure market risk and thus cannot be estimated using Moody's Market Value CDO Methodology®. Accordingly, the Second Trigger Collateral Amount also:

- expands the hedge types to include transaction-specific hedges, to mitigate variations in their valuation; and
- considers the next net coupon payment owed by the Counterparty, to protect the rated liabilities against

14 See *Moody's Special Report* "Moody's Rating Methodology: an Alternative Approach to Evaluating Market Value CDOs", December 5, 2002.
15 Taking account of the difference between the valuation time and the time of transfer.

Counterparty non-performance that may persist over a payment date[16].

Finally, the Second Trigger Collateral Amount must be sufficient to pay for a replacement hedge in the likely case where the amount needed to do so varies from mid-market valuation. No additional provision is made for the potential gap replacement bid and mid-market valuation, instead, it is borne by the adjustments already mentioned here.

IX VALUATION PERCENTAGES FOR REPRESENTATIVE INSTRUMENTS

Tables 5A, *5B*, *5C*, *5D* and *5E* list Valuation Percentages for instruments commonly posted as collateral. Cash includes euros, U.K. sterling, U.S. dollars, Australian dollars and Japanese yen. Bonds include U.S. Treasuries and Agencies, Euro-Zone government bonds, U.K. Gilts, Australian government bonds and Japanese government bonds, both fixed-rate and floating-rate. These instruments represent various types of permissible collateral, not an exhaustive list. Moody's will supply Valuation Percentages for certain other forms of collateral using the same methodology employed here[17].

The Valuation Percentages which follow are also obtained using an application of Moody's Market Value CDO Methodology[18], as described in the previous section.

As with the collateral amounts, both the number of business days exposure and the rating of a Counterparty combine to produce lower Valuation Percentages for the Second Trigger, compared with the First Trigger. At the First Trigger, the expected loss of the Counterparty is sufficiently low as to offset partially or even fully the market risk of the asset posted as collateral. Furthermore, the high probability that the Counterparty will continue to post limits measurement to the interval between posting dates plus any cure periods. As a result, many of the First Trigger Valuation Percentages in *Tables 5A*, *5B*, *5C*, *5D* and *5E* = 100%.

Valuation Percentages at the Second Trigger are considerably lower, owing primarily to the longer measurement period that must be considered. The growing likelihood that a Counterparty rated below the Second Trigger may at some point fail to post expands the time interval being measured by an additional 30 Business Days, the time potentially needed to arrange replacement. While a cashflow transaction may terminate a hedge immediately following a Counterparty failure to cure, it is not obligated to do so. Where possible, a rated transaction will likely defer terminating an existing hedge until the point where it simultaneously enters into a replacement hedge, to retain access to collateral that may be required to pay for the replacement. Additionally, higher expected losses associated with the lower ratings of a Counterparty below the Second Trigger offset the market risk of the collateral to a much lesser degree than at the First Trigger.

No further adjustments are made to Valuation Percentages for collateral posted in the same currency as that of the liabilities of the cashflow transaction being hedged. But collateral denominated in a currency separate from that of the rated liabilities is exposed to an additional market risk, that of the currency pair itself. In this instance, the Valuation Percentage of the collateral currency per liability currency is also obtained, and applied to that of the respective collateral type[19].

16 Please also see "V Payment Priorities - Collateral Return Following Hedge Termination" for mechanism enabling cashflow transaction, under certain circumstances, to retain collateral equal to unpaid amounts.
17 Data needed include price history for proposed collateral and for currency of collateral per currency of liabilities, where the two currencies differ.
18 See Moody's Special Report "Moody's Rating Methodology: an Alternative Approach to Evaluating Market Value CDOs", December 5, 2002.
19 For certain single-currency hedges addressing asset mismatches only, collateral may be posted in the currency of the hedge itself without application

X “THE FRAMEWORK”

Table 1

Counterparty Obligations by Rating Category

The following table sets out the three rating categories and associated obligations pertaining to a Counterparty whose risk is de-linked from a cashflow transaction at its close.

If a Counterparty's ratings (or the ratings of its guarantor) are above the First Trigger, it may provide a hedge to a cashflow transaction or assume an existing hedge requiring replacement, in either case without posting collateral, although it must agree to take corresponding action prescribed below, upon its ratings (and the ratings of its guarantor, if any) being downgraded to a trigger level.

For example, if an unguaranteed Counterparty has only a long-term rating[1] that is downgraded to **A2** or both a long-term and a short-term rating, and its long-term rating is downgraded to **A3** or its short-term rating is downgraded to **P-2**, it should be contractually obligated to take the steps corresponding to the “First Trigger”. If that Counterparty's long-term rating is downgraded to **Baa1** or below or, if it also has a short-term rating that is downgraded to **P-3** or below, that Counterparty should be contractually obligated to take the steps corresponding to the “Second Trigger”. If a Counterparty's rating(s) are subsequently upgraded to **A1** or above (where it has only a long-term rating) or **A2** or above and **P-1** (where it has both long-term and short-term ratings), it is no longer required to post any collateral at all, replace itself or procure a sufficiently rated guarantor for its obligations.

Hedges in Cashflow Transactions (USD, CAD, AUD, NZD, DKK, EUR, CHF, SEK & GBP) [2]		
Rating Categories Where Counterparty has Only a Long-Term Rating[1]	**Counterparty Obligations by Rating Category (apply for so long as Counterparty Rating corresponds to respective Trigger)**	**Rating Categories Where Counterparty has Both Long and Short-Term Ratings**[1]
Aaa	1. Enter into ISDA documentation at Close, including Schedule & CSA.	**Aaa** & **P-1**
Aa1	2. Provide new hedge to cashflow transaction or assume existing hedge requiring replacement, in either case without posting collateral.	**Aa1** & **P-1**
Aa2	3. If upgraded above First Trigger, cease performing First Trigger obligations.	**Aa2** & **P-1**
Aa3		**Aa3** & **P-1**
A1		**A1** & **P-1**
		A2 & **P-1**
A2	*"FIRST TRIGGER"* 1. Obtain guarantee, replace self OR post First Trigger Collateral Amount[3]. 2. If upgraded above Second Trigger, cease performing Second Trigger Obligations.	**A3** OR **P-2**
A3		
Baa1 & Below[4]	"*SECOND TRIGGER*" Obtain guarantee or replace self, AND, in interim, post Second Trigger Collateral Amount[5].	**Baa1** & Below[4] OR **P-3**

1 Long-term rating refers to senior unsecured rating.
2 Other currencies, such as those of Emerging Market domiciles, may have different rating triggers and sanctions.
3 See *Table 4A-1* for First Trigger Collateral Amount.
4 Includes withdrawn ratings.
5 See *Table 4B-1* for Second Trigger Collateral Amount.

Table 2A
Counterparty Obligations, SPV Remedies and Timing

CRITERIA	STANDARD
Timing for CSA	Closing.
Priority of Periodic Payments to Counterparty	Senior in both interest and principal waterfalls to all rated debt. Junior to tax and senior expenses.
Ratings Above First Trigger	Provide hedge without posting collateral. Assume existing hedge requiring replacement without posting collateral.
First Trigger	
SPV notifies Counterparty?	No. Counterparty obligations automatic following publication by Moody's of change in rating of Counterparty to First Trigger levels.'
Days for Counterparty to post collateral.	30 Business Days ("BDs") following publication by Moody's of such downgrade to post First Trigger Collateral Amount. Counterparty may, at any time, avoid posting collateral by transferring the hedge to a replacement counterparty rated above the Second Trigger or obtaining a guarantee from a guarantor rated above the First Trigger. If a replacement counterparty is rated at or below the First Trigger at the time of replacement, it must post First Trigger Collateral Amount with no grace period.
SPV remedy if Counterparty fails to post collateral.	Additional Termination Event @option of SPV, Counterparty = sole Affected Party.
External verification of mark?	No. First Trigger Collateral Amount does not distinguish transaction-specific hedges.
Second Trigger	
SPV notifies Counterparty?	No. Counterparty obligations automatic following publication by Moody's of change in rating of Counterparty to Second Trigger levels.
Days for Counterparty to act.	Post Second Trigger Collateral Amount within 30 BDs following publication by Moody's of such downgrade. If First Trigger grace period has elapsed, post First Trigger Collateral Amount during Second Trigger grace period. Counterparty may, at any time, avoid posting Second Trigger Collateral by transferring the hedge to a replacement counterparty rated above the Second Trigger or obtaining a guarantee from a guarantor rated above the Second Trigger. Ongoing obligation to seek guarantee or replacement, as soon as reasonably practicable, using "commercially reasonable efforts" to do so.
External verification of mark?	No. Instead, Second Trigger Collateral Amount increases for transaction-specific hedges.
SPV remedies if Counterparty fails to take required action.	Event of Default @option of SPV, if collateral not posted or Counterparty fails to use commercially reasonable efforts to obtain replacement or a guarantee. Additional Termination Event beginning 30 BDs following publication by Moody's of such downgrade at option of SPV, using amended ISDA termination payment calculation measure & Market Quotation, BUT ONLY WHERE at least one eligible Counterparty submits "live bid" to replace original Counterparty. (Please note - No Additional Termination Event exists in absence of eligible party submitting "live bid". Without at least one such "live bid", the original Counterparty continues to provide the hedge, begins posting the Second Trigger Collateral Amount and replacement is still sought. If at some future date, at least one eligible party submits a "live bid" and the ratings of the Counterparty remain at or below the Second Trigger, an Additional Termination Event may be declared @option of SPV[1], using amended ISDA termination payment calculation measure & Market Quotation.)

1. Moody's is continuing to explore whether, in certain transactions identified at close, the Trustee should be required to appoint a broker to support a parallel search by the SPV for replacement. In due course, this additional criteria may be added to this framework.

Table 2B

Termination - Amended Market Quotation and Payment Priorities

Amended ISDA Termination Payment Calculation Measure Where Counterparty Defaulting Party or Sole Affected Party (except for Illegality or Tax Event)[1]	
"Market Quotation"[2]	• "Live bids" to be made for hedge on terms that are at least as beneficial (in all material respects) for the SPV as the current one, including rating triggers, credit support documentation and other components of this framework, to be determined by SPV, acting in a commercially reasonable manner. • A "live bid" represents the amount which an eligible institution is willing to pay or receive to execute a replacement hedge with the cashflow transaction. • Counterparty may obtain "live bids" too, and must attempt to do so if required by the SPV. • All "live bids" from eligible institutions considered, whether sourced by the Counterparty or SPV. • At any time at which two or more "live bids" are available, the SPV is entitled to accept only the "live bid" that is the most beneficial for the outgoing Counterparty. • <u>Where replacement occurs on or before the Early Termination Date</u>, the actual replacement price paid determines the "mark-to-market" component of a termination payment, even if only one "live bid" is obtained. • <u>Where replacement does not occur on or before the Early Termination Date and at least one "live bid" is available</u>, the "live bid" that is the most beneficial for the outgoing Counterparty is used to determine the "mark to market" component of a termination payment. • <u>Where replacement does not occur on or before the Early Termination Date and no "live bid" is available</u>, revert to Loss.
Termination Payment Calculation Measure Where SPV is Defaulting Party, Affected Party or Termination for Illegality or Tax Event	
	Market Quotation without above adjustments.
Priority of Termination Payments to Counterparty	
A. General Rule:	A: Senior in both interest and principal waterfalls to all rated debt. Junior to tax and senior expenses.
B. Exception to General Rule:	B. Where Counterparty is Defaulting Party or sole Affected Party: Subordinate in waterfall to all rated debt;[3] AND No recourse to funds that may subsequently be applied to pay principal on rated debt.
C. Exception to Exception:	C. Senior in both interest and principal waterfalls where hedge termination arises from Tax Event or Illegality.

1. *Tables 3A* & *3B* list Events of Default and Additional Termination Events as applied to a Counterparty and SPV.
2. Note that "Market Quotation" should usually be selected as the payment measure.
3. Note that replacement receipts from a replacement Counterparty and any collateral posted under the CSA (in excess of that which is necessary to cover any amount paid by the SPV to enter into a replacement hedge and any net unpaid amount owing to the SPV) may be paid or transferred directly to the original Counterparty outside the priority of payments

Table 3A

Events of Default - Applicability to Counterparty & SPV[1]

EVENT OF DEFAULT	COUNTERPARTY	SPV
Failure to Pay or Deliver (s. 5(a)(i))	Apply	Optional
Breach of Agreement (s. 5(a)(ii))	Apply	Disapply
Credit Support Default (s. 5(a)(iii)) [2,3]	Apply[4]	May apply only with respect to return of excess collateral to Counterparty, otherwise Disapply[5]
Misrepresentation (s. 5(a)(iv))	Apply	Disapply, except where noted below[6]
Default under Specified Transaction (s. 5(a)(v))	Apply only where more than one swap agreement	Disapply
Cross Default (s. 5(a)(vi))	Optional	Disapply
Bankruptcy (s. 5(a)(vii))	Apply	Optional[7]
Merger without Assumption (s. 5(a)(viii))	Apply	Optional

1. Section references are to the 1992 ISDA Master Agreement.
2. CSA generally designated a credit support document, to enable this Event of Default to cover failure both by Counterparty to post required collateral and SPV to return excess collateral.
   FOR AVOIDANCE OF DOUBT, the framework does not contemplate any other governing document of a cashflow transaction, such as an Indenture, to be designated a credit support document.
3. Application is necessary for credit support documents governed by the laws of New York. While application is not technically necessary where collateral is provided via an English-law credit support annex, application allows for an Event of Default to be called e.g. if the Counterparty challenges the validity of the credit support annex.
4. Where Counterparty fails to post required collateral, the SPV, or its Trustee or other agent, delivers notice to Counterparty specifying Event of Default.
5. Generally, the only obligation of the SPV under the CSA is to return excess collateral to the Counterparty. The framework does not contemplate any other action, or failure to act, by SPV giving rise to this Event of Default, whether related to the CSA or other governing document.
6. Apply only to representations by SPV regarding corporate "good housekeeping", such as those relating to "capacity and authority" and "security interest", PROVIDED THAT, an opinion regarding each such representation is provided at closing by the Issuer.
7. If this applies to the SPV, the following adjustments are generally necessary:
   (2): Disapply;
   (3): Exclude the granting of security under transaction documents;
   (4): Exclude actions taken by Counterparty or affiliates;
   (6): Delete "seeks or" and expressly exclude the transaction's Trustee, Custodian and other analogous parties; and
   (7): Disapply. See "Additional Termination Events" in *Table 3B*, following page.
   (8): Apply, to the extent (1) - (7) apply; disapply otherwise.
   (9): Disapply.

Table 3B

Termination Events - Applicability to Counterparty & SPV[1]

TERMINATION EVENT	COUNTERPARTY AS AFFECTED PARTY	SPV AS AFFECTED PARTY
Illegality (s. 5(b)(i))	Optional	Optional
Tax Event (s. 5(b)(ii))	Optional[2]	Optional
Tax Event Upon Merger (s. 5(b)(iii))	Optional	Optional
Credit Event Upon Merger (s. 5(b)(iv))	Optional	Optional
Additional Termination Events	•Failure to replace self or procure guarantor over own hedge obligations within 30 days after Second Trigger, BUT ONLY WHERE at least one eligible party has submitted a "live bid". •Failure to post First Trigger Collateral Amount	• Acceleration of rated debt.[3] • Rated debt redeemed in whole.[3] • Rated debt redeemed in part.[3,4,5] • Indenture Event of Default, followed by irrevocable vote by noteholders to accelerate or redeem rated notes.[3] • Materially adverse change to transaction documents w/o Counterparty consent.[6] • New hedge executed by SPV without existing Counterparty consent.[7]

1. Section references are to the 1992 ISDA Master Agreement.
2. If this applies, either (i) delete sub-paragraph (x) of Tax Event or (ii) the SPV and the Trustee should receive satisfactory legal opinions at closing that, under current law, none of the Counterparty's or the SPV's payments are subject to withholding tax.
3. In certain cashflow transactions, non-rescindable liquidation of the collateral should be included as a condition precedent to this ATE. Hedge counterparty does not participate in vote deciding to accelerate.
4. Partial termination of the hedge (with the SPV as the sole Affected Party) may apply, provided that either: (a) both redeemed and remaining rated debtholders are kept whole after termination payment made; or (b) the risk associated with such a partial termination is considered in the rating.
5. Disapply to redemption of notes to cure coverage failures in CDOs, unless both hedge reductions and termination payments explicitly modeled at close and considered in the rating.
7. To be considered on a case-by-case basis.

Table 4A-1
First Trigger Collateral Amount

Applicability

If the Counterparty has Moody's rating(s) which are at the following levels and does not have a sufficiently rated guarantor, the First Trigger Collateral Amount must be posted on at least weekly basis (unless and until the Counterparty replaces itself with an eligible institution or procures a sufficiently rated guarantor for its obligations under the hedge):

A3 or **A2**, if Counterparty has only a long-term rating[1];

OR

A3 or **P-2**, if Counterparty has both long and short-term ratings;

If the Counterparty's Moody's rating(s) are downgraded to the "Second Trigger" level, the actions corresponding to the Second Trigger should be instead taken. If a Counterparty's rating(s) are subsequently upgraded above the First Trigger level, it is no longer required to post any collateral at all, replace itself or procure a sufficiently rated guarantor for its obligations.

First Trigger Collateral Amounts

The collateral to be posted by the Counterparty at the First Trigger depends upon the type of hedge, as set out in the table below. Where a Counterparty provides more than one hedge to a cashflow transaction under a single Master Agreement, it may net the First Trigger Collateral Amount for each hedge and post on an aggregate basis. At any Calculation Date where the sum of the mid-market value of the hedge and the estimate of its potential increase is negative or zero, no collateral is owed to the cashflow transaction.

The First Trigger Collateral Amounts assume risk periods equal to the interval between posting dates[20] plus the number of days allowed for a cure period, generally a total of five business days for daily posting and nine business days for weekly posting.

First Trigger Collateral Amounts[2]	
Single currency swaps, transaction-specific hedges, caps, floors & swaptions	
Daily Posting:	Max[0, MtM[3] + Min[**15** * DV01, **2%** * hedge notional]]
Weekly Posting:	Max[0, MtM[3] + Min[**25** * DV01, **4%** * hedge notional]]
Cross-currency swaps, transaction-specific hedges, caps, floors & swaptions	
Daily Posting:	Max[0, MtM[3] + Min[**1.00%** * hedge notional[4] + **10** * DV01[5], **2.5%** * hedge notional[4]]]
Weekly Posting:	Max[0, MtM[3] + Min[**2.00%** * hedge notional[4] + **20** * DV01[5], **5%** * hedge notional[4]]]

1. Long-term rating = senior unsecured rating.
2. Calculation should be in same currency as that of rated liabilities. However, for certain single-currency hedges addressing asset mismatches only, calculation may be made in the currency of the hedge itself, even where different from that of the rated liabilities.
3. MtM = Mid-market value.
4. "Hedge Notional" for cross-currency hedge = notional of that leg denominated in same currency as rated liabilities of cashflow transaction.
5. Larger of two DV01's corresponding to each leg of a cross-currency hedge.

20 Taking account of the difference between the valuation time and the time of transfer.

Table 4A-2

Potential Increase of Mid-market Value of Hedges[1] at First Trigger

The following estimates of the potential increase in the mid-market valuation of a hedge may be used without reference to DV01. In this case, the First Trigger Collateral Amount = Max(0, Mark-to-market value + hedge notional[2] * the respective potential increase below).

Potential Increase of Mid-Market Valuation of Swaps, Caps, Floors & Transaction Specific Hedges

Weighted Average Life of Hedge in Years	Single Currency Hedges		Currency Hedges[2]	
	Posting Frequency			
	Daily	Weekly	Daily	Weekly
1 or less	0.15%	0.25%	1.10%	2.20%
2 or less but more than 1	0.30%	0.50%	1.20%	2.40%
3 or less but more than 2	0.40%	0.70%	1.30%	2.60%
4 or less but more than 3	0.60%	1.00%	1.40%	2.80%
5 or less but more than 4	0.70%	1.20%	1.50%	2.90%
6 or less but more than 5	0.80%	1.40%	1.60%	3.10%
7 or less but more than 6	1.00%	1.60%	1.60%	3.30%
8 or less but more than 7	1.10%	1.80%	1.70%	3.40%
9 or less but more than 8	1.20%	2.00%	1.80%	3.60%
10 or less but more than 9	1.30%	2.20%	1.90%	3.80%
11 or less but more than 10	1.40%	2.30%	1.90%	3.90%
12 or less but more than 11	1.50%	2.50%	2.00%	4.00%
13 or less but more than 12	1.60%	2.70%	2.10%	4.10%
14 or less but more than 13	1.70%	2.80%	2.10%	4.30%
15 or less but more than 14	1.80%	3.00%	2.20%	4.40%
16 or less but more than 15	1.90%	3.20%	2.30%	4.50%
17 or less but more than 16	2.00%	3.30%	2.30%	4.60%
18 or less but more than 17	2.00%	3.50%	2.40%	4.80%
19 or less but more than 18	2.00%	3.60%	2.40%	4.90%
20 or less but more than 19	2.00%	3.70%	2.50%	5.00%
21 or less but more than 20	2.00%	3.90%	2.50%	5.00%
22 or less but more than 21	2.00%	4.00%	2.50%	5.00%
23 or less but more than 22	2.00%	4.00%	2.50%	5.00%
24 or less but more than 23	2.00%	4.00%	2.50%	5.00%
25 or less but more than 24	2.00%	4.00%	2.50%	5.00%
26 or less but more than 25	2.00%	4.00%	2.50%	5.00%
27 or less but more than 26	2.00%	4.00%	2.50%	5.00%
28 or less but more than 27	2.00%	4.00%	2.50%	5.00%
29 or less but more than 28	2.00%	4.00%	2.50%	5.00%
more than 29	2.00%	4.00%	2.50%	5.00%

1. *Table 4A-2* addresses potential increase of all interest-rate and currency hedges, including swaps, caps, floors, swaptions and transaction-specific hedges.
2. "Hedge Notional" for cross-currency hedge = notional of that leg denominated in same currency as rated liabilities of cashflow transaction.

Table 4B-1

Second Trigger Collateral Amount

APPLICABILITY

If the Counterparty has Moody's rating(s) at or below the following levels, or withdrawn, and does not have a sufficiently rated guarantor, it posts the Second Trigger Collateral Amount until replacing itself with an eligible institution or procuring a sufficiently rated guarantor for its obligations under the hedge:

Baa1, if Counterparty has only a long-term rating[1];

OR

Baa1 or **P-3**, if Counterparty has both long and short-term ratings.

If the Counterparty's Moody's ratings are upgraded to the “First Trigger” level, the actions corresponding to the First Trigger should be instead taken. If a Counterparty's ratings are further upgraded to above the First Trigger level, it is no longer required to post any collateral at all, replace itself or procure a sufficiently rated guarantor for its obligations.

Second Trigger Collateral Amounts

The collateral to be posted by the Counterparty at the Second Trigger depends upon the type of hedge, as set out in the table below. Note: This collateral must be posted pending replacement/procuring guarantor; it is not a substitute for either. Where a Counterparty provides multiple hedges to a cashflow transaction under a single Master Agreement, it may net the Second Trigger Collateral Amount for each hedge and post on an aggregate basis. At any Calculation Date where the sum of the mid-market value of the hedge and the estimate of its potential increase is negative or zero, no collateral is owed to the cashflow transaction.

The Second Trigger Collateral Amounts assume risk periods equal to the interval between posting dates[21] plus the number of days allowed for a cure period plus an additional 30 business days to arrange replacement, if needed. As a result, the risk period equals a total of 35 business days for daily posting and 39 business days for weekly posting.

Second Trigger Collateral Amounts[2]	
Single currency swap, no optionality (excludes transaction-specific hedges, caps, floors & swaptions)	
Daily Posting:	Max[0, next payment, MtM[3] + Min[**50** * DV01, **8%** * hedge notional]]
Weekly Posting:	Max[0, next payment, MtM[3] + Min[**60** * DV01, **9%** * hedge notional]]
Single currency transaction-specific hedges, caps, floors & swaptions	
Daily Posting:	Max[0, next payment, MtM[3] + Min[**65** * DV01[4], **10%** * hedge notional]]
Weekly Posting:	Max[0, next payment, MtM[3] + Min[**75** * DV01[4], **11%** * hedge notional]]
Cross-currency swap, no optionality (excludes transaction-specific hedges, caps, floors & swaptions)	
Daily Posting:	Max[0, next payment[5], MtM[3] + Min[**6.00%** of hedge notional[7] + **15** * DV016, **9%** * hedge notional[6]]]
Weekly Posting:	Max[0, next payment[5], MtM[3] + Min[**7.00%** of hedge notional[7] + **25** * DV016, **10%** * hedge notional[6]]]
Cross-currency transaction-specific hedges, caps, floors & swaptions	
Daily Posting:	Max[0, next payment[5], MtM[3] + Min[**6.00%** of hedge notional[6] + **30** * DV01[4,7], **11%** hedge notional[6]]]
Weekly Posting:	Max[0, next payment[5], MtM[3] + Min[**7.00%** of hedge notional[6] + **40** * DV01[4,7], **12%** * hedge notional[6]]]

1. Long-term rating = senior unsecured rating.
2. Calculation should be in same currency as that of rated liabilities. However, for certain single-currency hedges addressing asset mismatches only, calculation may be made in the currency of the hedge itself, even where different from that of the rated liabilities.
3. MtM = Mid-market value.
4. "DV01" for transaction-specific hedge uses same assumptions as mid-market value.
5. Excludes exchange of notional.
6. "Hedge Notional" for cross-currency hedge = notional of that leg denominated in same currency as rated liabilities of cashflow transaction.
7. Larger of two DV01's corresponding to each leg of a cross-currency hedge.

21 Taking account of the difference between the valuation time and the time of transfer.

Table 4B-2

Potential Increase of Mid-market Value of Swaps[1] at Second Trigger

The following estimates of the potential increase in the mid-market valuation of a swap without optionality may be used without reference to DV01. In this case, the Second Trigger Collateral Amount = Max(0, Next payment[2], Mark-to-market value + hedge notional[3] * the respective potential increase listed below).

Swaps Only (Excludes Caps, Floors & Transaction-Specific Hedges)				
Weighted Average Life of Hedge in Years	Single Currency Swap		Currency Swaps[3]	
	Posting Frequency			
	Daily	Weekly	Daily	Weekly
1 or less	0.50%	0.60%	6.10%	7.25%
2 or less but more than 1	1.00%	1.20%	6.30%	7.50%
3 or less but more than 2	1.50%	1.70%	6.40%	7.70%
4 or less but more than 3	1.90%	2.30%	6.60%	8.00%
5 or less but more than 4	2.40%	2.80%	6.70%	8.20%
6 or less but more than 5	2.80%	3.30%	6.80%	8.40%
7 or less but more than 6	3.20%	3.80%	7.00%	8.60%
8 or less but more than 7	3.60%	4.30%	7.10%	8.80%
9 or less but more than 8	4.00%	4.80%	7.20%	9.00%
10 or less but more than 9	4.40%	5.30%	7.30%	9.20%
11 or less but more than 10	4.70%	5.60%	7.40%	9.30%
12 or less but more than 11	5.00%	6.00%	7.50%	9.50%
13 or less but more than 12	5.40%	6.40%	7.60%	9.70%
14 or less but more than 13	5.70%	6.80%	7.70%	9.80%
15 or less but more than 14	6.00%	7.20%	7.80%	10.00%
16 or less but more than 15	6.30%	7.60%	7.90%	10.00%
17 or less but more than 16	6.60%	7.90%	8.00%	10.00%
18 or less but more than 17	6.90%	8.30%	8.10%	10.00%
19 or less but more than 18	7.20%	8.60%	8.20%	10.00%
20 or less but more than 19	7.50%	9.00%	8.20%	10.00%
21 or less but more than 20	7.80%	9.00%	8.30%	10.00%
22 or less but more than 21	8.00%	9.00%	8.40%	10.00%
23 or less but more than 22	8.00%	9.00%	8.50%	10.00%
24 or less but more than 23	8.00%	9.00%	8.60%	10.00%
25 or less but more than 24	8.00%	9.00%	8.60%	10.00%
26 or less but more than 25	8.00%	9.00%	8.70%	10.00%
27 or less but more than 26	8.00%	9.00%	8.80%	10.00%
28 or less but more than 27	8.00%	9.00%	8.80%	10.00%
29 or less but more than 28	8.00%	9.00%	8.90%	10.00%
more than 29	8.00%	9.00%	9.00%	10.00%

1. *Table 4B-2* addresses potential increase of interest-rate and currency swaps only. The potential increase in mid-market valuation of interest-rate and currency hedges with options, including caps, floors, swaptions and transaction-specific hedges, is addressed in *Table 4B-3*.
2. Excludes exchange of notional.
3. "Hedge Notional" for cross-currency hedge = notional of that leg denominated in same currency as rated liabilities of cashflow transaction.

Table 4B-3

Potential Increase of Mid-Market Value of Options & Transaction-Specific Hedges[1] at Second Trigger

The following estimates of the potential increase in the mid-market valuation of a hedge with optionality may be used without reference to DV01. In this case, the Second Trigger Collateral Amount will = Max(0, Next payment[2], Mark-to-market value + hedge notional[3] * the respective potential increase listed below).

Caps, Floors, Swaptions & Transaction Specific Hedges				
Weighted Average Life of Hedge in Years	Single Currency Hedges		Currency Hedges[2]	
	Posting Frequency			
	Daily	Weekly	Daily	Weekly
1 or less	0.65%	0.75%	6.30%	7.40%
2 or less but more than 1	1.30%	1.50%	6.60%	7.80%
3 or less but more than 2	1.90%	2.20%	6.90%	8.20%
4 or less but more than 3	2.50%	2.90%	7.10%	8.50%
5 or less but more than 4	3.10%	3.60%	7.40%	8.90%
6 or less but more than 5	3.60%	4.20%	7.70%	9.20%
7 or less but more than 6	4.20%	4.80%	7.90%	9.60%
8 or less but more than 7	4.70%	5.40%	8.20%	9.90%
9 or less but more than 8	5.20%	6.00%	8.40%	10.20%
10 or less but more than 9	5.70%	6.60%	8.60%	10.50%
11 or less but more than 10	6.10%	7.00%	8.80%	10.70%
12 or less but more than 11	6.50%	7.50%	9.00%	11.00%
13 or less but more than 12	7.00%	8.00%	9.20%	11.30%
14 or less but more than 13	7.40%	8.50%	9.40%	11.50%
15 or less but more than 14	7.80%	9.00%	9.60%	11.80%
16 or less but more than 15	8.20%	9.50%	9.80%	12.00%
17 or less but more than 16	8.60%	9.90%	10.00%	12.00%
18 or less but more than 17	9.00%	10.40%	10.10%	12.00%
19 or less but more than 18	9.40%	10.80%	10.30%	12.00%
20 or less but more than 19	9.70%	11.00%	10.50%	12.00%
21 or less but more than 20	10.00%	11.00%	10.70%	12.00%
22 or less but more than 21	10.00%	11.00%	10.80%	12.00%
23 or less but more than 22	10.00%	11.00%	11.00%	12.00%
24 or less but more than 23	10.00%	11.00%	11.00%	12.00%
25 or less but more than 24	10.00%	11.00%	11.00%	12.00%
26 or less but more than 25	10.00%	11.00%	11.00%	12.00%
27 or less but more than 26	10.00%	11.00%	11.00%	12.00%
28 or less but more than 27	10.00%	11.00%	11.00%	12.00%
29 or less but more than 28	10.00%	11.00%	11.00%	12.00%
more than 29	10.00%	11.00%	11.00%	12.00%

1. *Table 4B-3* addresses potential increase of interest-rate and currency options and transaction-specific hedges only. The potential increase in mid-market valuation of interest-rate and currency swaps with no optionality are addressed in *Table 4B-2*.
2. Excludes exchange of notional.
3. "Hedge Notional" for cross-currency hedge = notional of that leg denominated in same currency as rated liabilities of cashflow transaction.

Table 5A

Valuation Percentages

Where Credit Support Amount is EURO Denominated

	FIRST TRIGGER Business Days Risk: = 4 BDs + Posting Frequency;		SECOND TRIGGER = 34 BDs + Posting Frequency	
INSTRUMENT	**Daily**	**Weekly**	**Daily**	**Weekly**
EURO Cash	100%	100%	100%	100%
Sterling Cash	99%	98%	97%	96%
U.S. Dollar Cash	98%	97%	94%	93%
Yen Cash	98%	97%	93%	92%
U.S. Dollar Denominated Fixed-Rate Negotiable Treasury Debt issued by the U.S. Treasury Department with Remaining Maturity				
< 1 Year	98%	97%	94%	93%
1 to 2 years	98%	97%	93%	92%
2 to 3 years	98%	97%	92%	91%
3 to 5 years	98%	97%	91%	90%
5 to 7 years	98%	97%	90%	88%
7 to 10 years	98%	97%	88%	87%
10 to 20 years	98%	97%	85%	83%
> 20 years	98%	97%	83%	81%
U.S. Dollar Denominated Floating-Rate Negotiable Treasury Debt Issued by The U.S. Treasury Department				
All Maturities	98%	97%	93%	92%
U.S. Dollar Denominated Fixed-Rate U.S. Agency Debentures with Remaining Maturity				
< 1 Year	98%	97%	93%	92%
1 to 2 years	98%	97%	93%	91%
2 to 3 years	98%	97%	92%	90%
3 to 5 years	98%	97%	90%	89%
5 to 7 years	98%	97%	89%	87%
7 to 10 years	98%	97%	87%	86%
10 to 20 years	98%	97%	84%	82%
> 20 years	98%	97%	82%	80%
U.S. Dollar Denominated Floating-Rate U.S. Agency Debentures				
All Maturities	98%	97%	92%	91%
EURO Denominated Fixed-Rate Euro-Zone Government Bonds Rated Aa3 or Above by Moody's with Remaining Maturity				
< 1 Year	100%	100%	100%	100%
1 to 2 years	100%	100%	99%	99%
2 to 3 years	100%	100%	98%	98%
3 to 5 years	100%	100%	96%	96%
5 to 7 years	100%	100%	95%	94%
7 to 10 years	100%	100%	94%	93%
10 to 20 years	100%	100%	89%	88%
> 20 years	100%	100%	87%	86%
EURO Denominated Floating-Rate Euro-Zone Government Bonds Rated Aa3 or Above by Moody's				
All Maturities	100%	100%	99%	99%
Sterling Denominated Fixed-Rate Unitied kingdom Gilts with Remaining Maturity				
< 1 Year	99%	98%	96%	95%
1 to 2 years	99%	98%	95%	94%
2 to 3 years	99%	98%	94%	93%
3 to 5 years	99%	98%	93%	92%
5 to 7 years	99%	98%	92%	91%
7 to 10 years	99%	98%	91%	90%
10 to 20 years	99%	98%	87%	85%
> 20 years	99%	98%	85%	84%
Sterling Denominated Floating-Rate United Kingdom Gilts				
All Maturities	99%	98%	96%	95%
Yen Denominated Fixed-Rate Japanese Government Bonds with Remaining Maturity				
< 1 Year	99%	98%	95%	94%
1 to 2 years	99%	98%	94%	93%
2 to 3 years	99%	98%	93%	92%
3 to 5 years	99%	98%	92%	91%
5 to 7 years	99%	98%	91%	90%
7 to 10 years	99%	98%	90%	89%
10 to 20 years	99%	98%	86%	84%
> 20 years	99%	98%	84%	83%
Yen Denominated Floating-Rate Japanese Government Bonds				
All Maturities	99%	98%	95%	94%

Table 5B
Valuation Percentages
Where Credit Support Amount is STERLING Denominated

	FIRST TRIGGER Business Days Risk: =4 BDs + Posting Frequency;		SECOND TRIGGER = 34 BDs + Posting Frequency	
INSTRUMENT	**Daily**	**Weekly**	**Daily**	**Weekly**
Sterling Cash	100%	100%	100%	100%
EURO Cash	99%	98%	97%	96%
U.S. Dollar Cash	98%	97%	95%	94%
U.S. Dollar Denominated Fixed-Rate Negotiable Treasury Debt issued by the U.S. Treasury Department with Remaining Maturity				
< 1 Year	98%	97%	95%	94%
1 to 2 years	98%	97%	94%	93%
2 to 3 years	98%	97%	93%	92%
3 to 5 years	98%	97%	92%	91%
5 to 7 years	98%	97%	91%	89%
7 to 10 years	98%	97%	89%	88%
10 to 20 years	98%	97%	86%	84%
> 20 years	98%	97%	84%	82%
U.S. Dollar Denominated Floating-Rate Negotiable Treasury Debt Issued by The U.S. Treasury Department				
All Maturities	98%	97%	94%	93%
U.S. Dollar Denominated Fixed-Rate U.S. Agency Debentures with Remaining Maturity				
< 1 Year	98%	97%	94%	93%
1 to 2 years	98%	97%	94%	92%
2 to 3 years	98%	97%	93%	91%
3 to 5 years	98%	97%	91%	90%
5 to 7 years	98%	97%	90%	88%
7 to 10 years	98%	97%	88%	87%
10 to 20 years	98%	97%	85%	83%
> 20 years	98%	97%	83%	81%
U.S. Dollar Denominated Floating-Rate U.S. Agency Debentures				
All Maturities	98%	97%	93%	92%
EURO Denominated Fixed-Rate Euro-Zone Government Bonds Rated Aa3 or Above by Moody's with Remaining Maturity				
< 1 Year	99%	98%	97%	96%
1 to 2 years	99%	98%	96%	95%
2 to 3 years	99%	98%	95%	94%
3 to 5 years	99%	98%	93%	92%
5 to 7 years	99%	98%	92%	90%
7 to 10 years	99%	98%	91%	89%
10 to 20 years	99%	98%	86%	84%
> 20 years	99%	98%	84%	83%
EURO Denominated Floating-Rate Euro-Zone Government Bonds Rated Aa3 or Above by Moody's				
All Maturities	99%	98%	96%	95%
Sterling Denominated Fixed-Rate Unitied kingdom Gilts with Remaining Maturity				
< 1 Year	100%	100%	99%	99%
1 to 2 years	100%	100%	98%	98%
2 to 3 years	100%	100%	97%	97%
3 to 5 years	100%	100%	96%	96%
5 to 7 years	100%	100%	95%	95%
7 to 10 years	100%	100%	94%	94%
10 to 20 years	100%	100%	90%	89%
> 20 years	100%	100%	88%	87%
Sterling Denominated Floating-Rate United Kingdom Gilts				
All Maturities	100%	100%	99%	99%

Table 5C
Valuation Percentages
Where Credit Support Amount is U.S. DOLLAR Denominated

	FIRST TRIGGER Business Days Risk: = 4 BDs + Posting Frequency;		SECOND TRIGGER = 34 BDs + Posting Frequency	
INSTRUMENT	**Daily**	**Weekly**	**Daily**	**Weekly**
U.S. Dollar Cash	100%	100%	100%	100%
EURO Cash	98%	97%	94%	93%
Sterling Cash	98%	97%	95%	94%
Yen Cash	98%	97%	94%	93%
U.S. Dollar Denominated Fixed-Rate Negotiable Treasury Debt issued by the U.S. Treasury Department with Remaining Maturity				
< 1 Year	100%	100%	100%	100%
1 to 2 years	100%	100%	99%	99%
2 to 3 years	100%	100%	98%	98%
3 to 5 years	100%	100%	97%	97%
5 to 7 years	100%	100%	96%	95%
7 to 10 years	100%	100%	94%	94%
10 to 20 years	100%	100%	90%	89%
> 20 years	100%	100%	88%	87%
U.S. Dollar Denominated Floating-Rate Negotiable Treasury Debt Issued by The U.S. Treasury Department				
All Maturities	100%	100%	99%	99%
U.S. Dollar Denominated Fixed-Rate U.S. Agency Debentures with Remaining Maturity				
< 1 Year	100%	100%	99%	99%
1 to 2 years	100%	100%	99%	98%
2 to 3 years	100%	100%	98%	97%
3 to 5 years	100%	100%	96%	96%
5 to 7 years	100%	100%	93%	94%
7 to 10 years	100%	100%	93%	93%
10 to 20 years	100%	100%	89%	88%
> 20 years	100%	100%	87%	86%
U.S. Dollar Denominated Floating-Rate U.S. Agency Debentures				
All Maturities	100%	100%	98%	98%
EURO Denominated Fixed-Rate Euro-Zone Government Bonds Rated Aa3 or Above by Moody's with Remaining Maturity				
< 1 Year	98%	97%	94%	93%
1 to 2 years	98%	97%	93%	92%
2 to 3 years	98%	97%	92%	91%
3 to 5 years	98%	97%	90%	89%
5 to 7 years	98%	97%	89%	87%
7 to 10 years	98%	97%	88%	86%
10 to 20 years	98%	97%	84%	82%
> 20 years	98%	97%	82%	80%
EURO Denominated Floating-Rate Euro-Zone Government Bonds Rated Aa3 or Above by Moody's				
All Maturities	98%	97%	93%	92%
Sterling Denominated Fixed-Rate Unitied Kingdom Gilts with Remaining Maturity				
< 1 Year	98%	97%	94%	93%
1 to 2 years	98%	97%	93%	92%
2 to 3 years	98%	97%	92%	91%
3 to 5 years	98%	97%	91%	90%
5 to 7 years	98%	97%	90%	89%
7 to 10 years	98%	97%	89%	88%
10 to 20 years	98%	97%	86%	84%
> 20 years	98%	97%	84%	82%
Sterling Denominated Floating-Rate United Kingdom Gilts				
All Maturities	98%	97%	94%	93%
Yen Denominated Fixed-Rate Japanese Government Bonds with Remaining Maturity				
< 1 Year	99%	98%	96%	95%
1 to 2 years	99%	98%	95%	94%
2 to 3 years	99%	98%	94%	93%
3 to 5 years	99%	98%	93%	92%
5 to 7 years	99%	98%	92%	91%
7 to 10 years	99%	98%	91%	90%
10 to 20 years	99%	98%	87%	86%
> 20 years	99%	98%	86%	84%
Yen Denominated Floating-Rate Japanese Government Bonds				
All Maturities	99%	98%	95%	94%

Table 5D
Valuation Percentages
Where Credit Support Amount is AUSTRALIAN DOLLAR Denominated

	FIRST TRIGGER Business Days Risk: = 4 BDs + Posting Frequency;		SECOND TRIGGER = 34 BDs + Posting Frequency	
INSTRUMENT	**Daily**	**Weekly**	**Daily**	**Weekly**
Australian Dollar Cash	100%	100%	100%	100%
U.S. Dollar Cash	98%	97%	94%	93%
Yen Cash	98%	97%	94%	93%
Australian Dollar Denominated Fixed-Rate Australian Government Bonds with Remaining Maturity				
< 1 Year	100%	100%	98%	98%
1 to 2 years	100%	100%	98%	97%
2 to 3 years	100%	100%	97%	96%
3 to 5 years	100%	100%	96%	95%
5 to 7 years	100%	100%	94%	94%
7 to 10 years	100%	100%	93%	93%
10 to 20 years	100%	100%	89%	88%
> 20 years	100%	100%	87%	86%
Australian Dollar Denominated Fixed-Rate Australian Government Bonds				
All Maturities	100%	100%	98%	98%
Yen Denominated Fixed-Rate Japanese Government Bonds with Remaining Maturity				
< 1 Year	98%	97%	94%	93%
1 to 2 years	98%	97%	94%	93%
2 to 3 years	98%	97%	93%	92%
3 to 5 years	98%	97%	92%	90%
5 to 7 years	98%	97%	91%	89%
7 to 10 years	98%	97%	90%	88%
10 to 20 years	98%	97%	86%	85%
> 20 years	98%	97%	85%	83%
Yen Denominated Floating-Rate Japanese Government Bonds				
All Maturities	98%	97%	92%	91%
U.S. Dollar Denominated Fixed-Rate Negotiable Treasury Debt issued by the U.S. Treasury Department with Remaining Maturity				
< 1 Year	98%	97%	95%	94%
1 to 2 years	98%	97%	94%	93%
2 to 3 years	98%	97%	93%	92%
3 to 5 years	98%	97%	92%	91%
5 to 7 years	98%	97%	91%	89%
7 to 10 years	98%	97%	89%	88%
10 to 20 years	98%	97%	86%	84%
> 20 years	98%	97%	84%	82%
U.S. Dollar Denominated Floating-Rate Negotiable Treasury Debt Issued by The U.S. Treasury Department				
all Maturities	98%	97%	94%	93%

Table 5E

Valuation Percentages

Where Credit Support Amount is JAPANESE YEN Denominated

	FIRST TRIGGER Business Days Risk: = 4 BDs + Posting Frequency;		SECOND TRIGGER = 34 BDs + Posting Frequency	
INSTRUMENT	**Daily**	**Weekly**	**Daily**	**Weekly**
U.S. Dollar Cash	98%	97%	94%	93%
EURO Cash	98%	97%	94%	92%
Sterling Cash	98%	97%	95%	92%
Yen Cash	100%	100%	100%	100%
U.S. Dollar Denominated Fixed-Rate Negotiable Treasury Debt issued by the U.S. Treasury Department with Remaining Maturity				
< 1 Year	98%	97%	94%	93%
1 to 2 years	98%	97%	93%	92%
2 to 3 years	98%	97%	92%	91%
3 to 5 years	98%	97%	91%	90%
5 to 7 years	98%	97%	90%	88%
7 to 10 years	98%	97%	88%	87%
10 to 20 years	98%	97%	85%	83%
> 20 years	98%	97%	83%	81%
U.S. Dollar Denominated Floating-Rate Negotiable Treasury Debt Issued by The U.S. Treasury Department				
All Maturities	98%	97%	93%	92%
U.S. Dollar Denominated Fixed-Rate U.S. Agency Debentures with Remaining Maturity				
< 1 Year	98%	97%	93%	92%
1 to 2 years	98%	97%	93%	91%
2 to 3 years	98%	97%	92%	90%
3 to 5 years	98%	97%	90%	89%
5 to 7 years	98%	97%	89%	87%
7 to 10 years	98%	97%	87%	86%
10 to 20 years	98%	97%	84%	82%
> 20 years	98%	97%	82%	80%
U.S. Dollar Denominated Floating-Rate U.S. Agency Debentures				
All Maturities	98%	97%	92%	91%
EURO Denominated Fixed-Rate Euro-Zone Government Bonds Rated Aa3 or Above by Moody's with Remaining Maturity				
< 1 Year	98%	97%	93%	92%
1 to 2 years	98%	97%	92%	91%
2 to 3 years	98%	97%	91%	90%
3 to 5 years	98%	97%	89%	88%
5 to 7 years	98%	97%	88%	86%
7 to 10 years	98%	97%	87%	85%
10 to 20 years	98%	97%	82%	80%
> 20 years	98%	97%	80%	78%
EURO Denominated Floating-Rate Euro-Zone Government Bonds Rated Aa3 or Above by Moody's				
All Maturities	98%	97%	92%	91%
Sterling Denominated Fixed-Rate Unitied Kingdom Gilts with Remaining Maturity				
< 1 Year	96%	95%	92%	91%
1 to 2 years	96%	95%	91%	90%
2 to 3 years	96%	95%	90%	91%
3 to 5 years	96%	95%	89%	88%
5 to 7 years	96%	95%	88%	87%
7 to 10 years	96%	95%	87%	86%
10 to 20 years	96%	95%	84%	82%
> 20 years	96%	95%	82%	80%
Sterling Denominated Floating-Rate United Kingdom Gilts				
All Maturities	98%	95%	94%	93%
Yen Denominated Fixed-Rate Japanese Government Bonds with Remaining Maturity				
< 1 Year	100%	100%	100%	100%
1 to 2 years	100%	100%	99%	99%
2 to 3 years	100%	100%	98%	98%
3 to 5 years	100%	100%	98%	98%
5 to 7 years	100%	100%	97%	96%
7 to 10 years	100%	100%	95%	95%
10 to 20 years	100%	100%	92%	91%
> 20 years	100%	100%	90%	90%
Yen Denominated Floating-Rate Japanese Government Bonds				
All Maturities	100%	100%	99%	99%

XI WITHHOLDING TAX

General

Generally speaking, withholding tax is a tax that is charged to someone (the "payer") who must make a payment to another person (the "payee"). It most frequently applies when the respective offices through which the payer and payee act under the hedge are in different jurisdictions.[22] Many jurisdictions have signed bi-lateral agreements with others so that payers in those jurisdictions are not charged withholding tax or are charged withholding tax at a reduced rate.

A party to an agreement may therefore agree that, if withholding tax applies to payments that it is required to make under that agreement, the party will "gross up" the payments. If a payer agrees to gross up and if withholding tax applies to the payer's payments, the payer has the obligation to pay such additional amount to the payee that, when considering the amount of withholding tax payable by the payer, would result in the payee receiving the amount that it would have received but for the withholding tax.

Gross up provisions may be unqualified, or may be qualified in that they do not require the payer to gross up in certain circumstances. The ISDA Master contains a gross-up provision, but it is qualified, so that the payer is not required to gross up in any of the following circumstances:

(a) if withholding tax applies due to a connection of the payee to the jurisdiction of the payer;

(b) if the withholding tax applies due to the payee representation (see below) being incorrect as of the date that it is given;

(c) if the withholding tax applies due to the payee failing to notify the payer that its payee tax representation (see below) has become incorrect; or

(d) if the payee does not provide all tax forms and other documents reasonably requested by the payer.

Withholding in Hedges for Cashflow Transactions

If withholding tax applies to payments made by the Counterparty to the SPV under a hedge, and if the Counterparty is not required to gross up, the SPV will obviously receive less than the full amount owing to it. Also, if the SPV were required to gross up, and withholding tax applied to its payments under the hedge, the SPV would likely be required to divert funds otherwise destined for rated debt and pay it to the Counterparty. Any of these scenarios could involve substantial amounts of money, and will usually be material to a cashflow transaction involving a hedge.

Therefore, in order to address the risks described above, the following principles should generally be incorporated into every hedge in a cashflow transaction: or

(1) Either:

- (i) The SPV should not gross up (i.e., disapply the standard gross up provisions from s. 2(d)(i)(4) of the Master Agreement); or
- (ii) The SPV and the Trustee should receive a satisfactory legal opinion at closing confirming that, under current law, no withholding applies to payments (including termination payments) that the SPV makes under the hedge[23].

(2) Either:

- (i) The Counterparty should be required to agree to an unqualified gross-up requirement[24]; or
- (ii) The SPV and the Trustee should receive a satisfactory legal opinion at closing confirming that, under current law, no withholding applies to payments (including termination payments) that the Counterparty makes under the hedge[23].

22 Specifically, one must consider the laws of (a) the jurisdiction of incorporation of both parties, (b) the jurisdiction of the governing law of the hedge and (c) jurisdiction(s) containing the office(s) through which each party to the hedge acts.
23 The opinion should be provided by a law firm and Moody's should receive a copy of it.
24 For this purpose, "unqualified gross-up" means that the qualification in (a) above does not apply (qualifications (b), (c) and (d) above may apply). Technically, this need only be an unqualified gross up for all withholdings or deductions in respect of payments that it makes under the hedge other than those which arise due to a Change in Tax Law.

(3) Any tax representations of a legal nature given by the SPV should be supported by a satisfactory legal opinion[25].

(4) As a condition to any transfer or replacement of the hedge, any tax opinion that was necessary at closing under 1-3 above should be provided in relation to the new hedge, unless the relevant terms of the hedge are amended to avoid the need for such opinion.

(5) If the Counterparty's obligations are guaranteed:

   (i) The guarantor should be required to gross-up for withholding tax in relation to guarantee payments;

   (ii) The SPV and the Trustee should receive a satisfactory legal opinion that, under current law, no withholding applies to payments under the guarantee[25]; or

   (iii) The hedge should provide that, if withholding tax is deducted from any payment under a guarantee, the amount owing by the Counterparty under the hedge shall be increased to ensure that the net amount actually received by the SPV from the guarantor (after deduction for tax) is the same as it would have been had no withholding been required.

(6) Some transaction party (other than the Counterparty) should be required to assist the SPV in preparing tax forms (and determining whether they are "reasonably requested").

(7) The Tax Event Termination Event should be addressed as discussed above in *Table 3B*.

25 The opinion should be provided by a law firm and Moody's should receive a copy of it.

APPENDIX

Pro Forma ISDA Schedule and CSA Provisions

THE PRO FORMA ISDA SCHEDULE AND CSA PROVISIONS IN THIS APPENDIX ARE AN EXAMPLE OF HOW THE FRAMEWORK MAY BE INCORPORATED IN HEDGE AGREEMENTS EXECUTED UNDER THE 1992 ISDA MASTER AGREEMENT. IN CERTAIN RESPECTS, THE PRO FORMAS ARE MORE DETAILED THAN THE FRAMEWORK AND SHOULD BE REGARDED AS A MORE COMPLETE EXPRESSION OF MOODY'S CRITERIA. FOR THE PURPOSE OF THE PRO FORMAS, PARTY A IS THE COUNTERPARTY AND PARTY B IS THE SPV.

THE PRO FORMAS ARE MERELY INTENDED TO SET OUT PROVISIONS WHICH, IF INCORPORATED INTO HEDGE AGREEMENTS EXECUTED UNDER THE 1992 ISDA MASTER AGREEMENT, ARE LIKELY TO ALLOW MOODY'S TO DE-LINK THE CREDIT RISK OF A COUNTERPARTY FROM THE CREDIT RISK ASSOCIATED WITH A CASHFLOW TRANSACTION WHEN ASSESSING SUCH A CASHFLOW TRANSACTION, AND ARE NOT INTENDED FOR ANY OTHER PURPOSE. IN PARTICULAR, THE PRO FORMAS ARE NOT INTENDED TO BE LEGAL OR TAX ADVICE OR ADVICE ON HOW TO DRAFT TRANSACTION DOCUMENTATION TO ANY PERSON (INCLUDING ANY COUNTERPARTY OR SPV) AND THEY DO NOT TAKE INTO ACCOUNT THE SPECIFIC REQUIREMENTS OF ANY PERSON. SUCH PERSONS SHOULD TAKE THEIR OWN LEGAL AND TAX ADVICE WHEN STRUCTURING, NEGOTIATING AND DOCUMENTING SUCH TRANSACTIONS.

SCHEDULE

Part 1. Termination Provisions

(a) *Payments on Early Termination.* For the purposes of Section 6(e) of this Agreement, Market Quotation and The Second Method will apply.

(b) *"**Termination Currency**"* means [*For currency swap or combined interest rate/currency swap, insert the currency of the Notes. For single-currency swap, insert the currency of the swap.*]

Part 2. Tax Representations[1]

Part 3. Agreement to Deliver Documents[2]

Part 4. Miscellaneous

(a) *Calculation Agent.* The Calculation Agent is Party A.

(b) *"**Credit Support Provider**"* means in relation to Party A, the guarantor under any Eligible Guarantee, and in relation to Party B, none.

(c) *"**Credit Support Document**"* means the Credit Support Annex[3] and any Eligible Guarantee.

(d) *Single Agreement.* Section 1(c) shall be amended by the addition of the words ", the Credit Support Annex after the words "Master Agreement"[4].

(e) *Local Business Day.* The definition of Local Business Day in Section 14 of this Agreement shall be amended by the addition of the words "or any Credit Support Document" after "Section 2(a)(i)" and the addition of the words "or Credit Support Document" after "Confirmation"[4].

1 Any Tax Representations given by Party B that are of a legal nature should be supported by a satisfactory legal opinion.
2 To be completed as appropriate.
3 It is not necessary to specify an English law Credit Support Annex as a Credit Support Document.
4 Not required for English law Credit Support Annex.

Part 5. Other Provisions

(a) *No Set-Off.*

(i) All payments under this Agreement shall be made without set-off or counterclaim, except as expressly provided for in Section 2(c) or Section 6.

(ii) Section 6(e) shall be amended by the deletion of the following sentence; “The amount, if any,payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.”

(b) *Security Interest.*[5]

(c) *Events of Default.*

Section 5 shall be amended as follows:

(i) Section 5(a)(ii) will not apply in respect of Party B.

(ii) Section 5(a)(iii) will not apply in respect of Party B [except that Section 5(a)(iii)(1) will apply in respect of Party B's obligations under Paragraph [2(b)/3(b)] of the Credit Support Annex[6]].

(iii) Section 5(a)(iv) will not apply in respect of Party B[7].

(iv) Section 5(a)(v) will not apply in respect of Party B.

(v) Section 5(a)(vii)(2), (7) and (9) will not apply in respect of Party B.

(vi) Section 5(a)(vii)(3) will not apply in respect of Party B to the extent it refers to any assignment, arrangement or composition that is effected by or pursuant to the [Transaction Documents].

(vii) Section 5(a)(vii)(4) will not apply in respect of Party B to the extent that it refers to proceedings or petitions instituted or presented by Party A or any of its Affiliates.

(viii) Section 5(a)(vii)(6) will not apply in respect of Party B to the extent that it refers to (i) any appointment that is effected by or pursuant to the [Transaction Documents] or (ii) any appointment that Party B has not become subject to.

(ix) Section 5(a)(vii)(8) will apply to Party B only to the extent that it applies to Section 5(a)(vii)(1), (3), (4), (5) and (6), as amended above.

(x) Without prejudice to any Event of Default resulting from Party A’s failure to post collateral in accordance with the criteria of [*reference other rating agencies*], any failure by Party A to comply with or perform any obligation to be complied with or performed by Party A under the Credit Support Annex shall not be an Event of Default unless (A) the Second Rating Trigger Requirements apply and at least 30 Local Business Days have elapsed since the last time the Second Rating Trigger Requirements did not apply and (B) such failure is not remedied on or before the third Local Business Day after notice of such failure is given to Party A.

5 Party A to acknowledge that Party B has created a security interest in respect of its rights under this Agreement (if applicable).
6 May insert wording in square brackets if the Credit Support Annex is specified as a Credit Support Document.
7 Permitted application of Section 5(a)(iv) is described in *Table 3A* of the Framework.

(d) *Tax Event.*

Section 5(b)(ii) will apply, provided that the words "(x) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (y)" shall be deleted[8].

(e) *Additional Termination Events.*[9]

Each of the following shall constitute an Additional Termination Event with Party A as Affected Party:

(i) **First Rating Trigger Collateral.** Party A has failed to comply with or perform any obligation to be complied with or performed by Party A in accordance with the Credit Support Annex and either (A) the Second Rating Trigger Requirements do not apply or (B) less than 30 Local Business Days have elapsed since the last time the Second Rating Trigger Requirements did not apply; and

(ii) **Second Rating Trigger Replacement.** (A) The Second Rating Trigger Requirements apply and 30 or more Local Business Days have elapsed since the last time the Second Rating Trigger Requirements did not apply and (B) at least one Eligible Replacement has made a Firm Offer that would, assuming the occurrence of an Early Termination Date, qualify as a Market Quotation (on the basis that paragraphs (i) and (ii) of Part 5(i) below (Close-Out Calculations) apply) and which remains capable of becoming legally binding upon acceptance.

(f) *Ratings Downgrade.*

So long as the Second Rating Trigger Requirements apply, Party A will, at its own cost, use commercially reasonable efforts to, as soon as reasonably practicable, procure either (A) an Eligible Guarantee in respect of all of Party A's present and future obligations under this Agreement by a guarantor with the Second Trigger Required Ratings or (B) a transfer in accordance with Part 5(j)(ii) below.

(g) *Tax.*

Notwithstanding the definition of "Indemnifiable Tax" in Section 14 of this Agreement, in relation to payments by Party A, any Tax shall be an Indemnifiable Tax and in relation to payments by Party B, no Tax shall be an Indemnifiable Tax"[10].

(h) *Non-Petition and Limited Recourse*[11]*.*

(i) *Close-Out Calculations.*

So long as Party A is (A) the Affected Party in respect of an Additional Termination Event or a Tax Event Upon Merger or (B) the Defaulting Party in respect of any Event of Default, paragraphs (i) to (vi) below shall apply:

(i) The definition of **"Market Quotation"** shall be deleted in its entirety and replaced with the following:

8 This deletion is only required in the absence of a legal opinion given by a law firm at closing confirming that none of Party A or Party B's payments under this Agreement are subject to deduction or withholding for Tax. Whether or not an opinion is given, paragraph (x) of Tax Event may (but need not) apply where Party B is the Affected Party.

9 Additional Termination Events with Party B as Affected Party may be inserted in accordance with *Table 3B* of Moody's Hedge Framework.

10 This provision may be modified, subject to delivery of the necessary tax opinions (see Section XI above).

11 This provision should include non-petition and limited recourse language in favour of Party B.

"Market Quotation" means, with respect to one or more Terminated Transactions, a Firm Offer which is:

(1) made by a Reference Market-maker that is an Eligible Replacement;

(2) for an amount that would be paid to Party B (expressed as a negative number) or by Party B (expressed as a positive number) in consideration of an agreement between Party B and such Reference Market-maker to enter into a transaction (the **"Replacement Transaction"**) that would have the effect of preserving for Party B the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under this Agreement in respect of such Terminated Transactions or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have been required after that date;

(3) made on the basis that Unpaid Amounts in respect of the Terminated Transaction or group of Transactions are to be excluded but, without limitation, any payment or delivery that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included; and

(4) made in respect of a Replacement Transaction with terms that are, in all material respects, no less beneficial for Party B than those of this Agreement (save for the exclusion of provisions relating to Transactions that are not Terminated Transactions), as determined by Party B."

(ii) In determining whether or not a Firm Offer satisfies the condition in sub-paragraph (4) of Market Quotation, Party B shall act in a commercially reasonable manner[12].

(iii) The definition of **"Settlement Amount"** shall be deleted in its entirety and replaced with the following:

""Settlement Amount" means, with respect to any Early Termination Date:

(1) if, on or prior to such Early Termination Date, a Market Quotation for the relevant Terminated Transaction or group of Terminated Transactions is accepted by Party B so as to become legally binding, the Termination Currency Equivalent of the amount (whether positive or negative) of such Market Quotation;

(2) if, on such Early Termination Date, no Market Quotation for the relevant Terminated Transaction or group of Terminated Transactions has been accepted by Party B so as to become legally binding and one or more Market Quotations have been communicated to Party B and remain capable of becoming legally binding upon acceptance by Party B, the Termination Currency Equivalent of the amount (whether positive or negative) of the lowest of such Market Quotations (for the avoidance of doubt, (i) a Market Quotation expressed as a negative number is lower than a Market Quotation expressed as a positive number and (ii) the lower of two Market Quotations expressed as negative numbers is the one with the largest absolute value); or

(3) if, on such Early Termination Date, no Market Quotation for the relevant Terminated Transaction or group of Terminated Transactions is accepted by Party B so as to become legally binding and no Market Quotations have been communicated to Party B and remain capable of becoming legally binding upon acceptance by Party B, Party B's Loss (whether positive or negative and without reference to any Unpaid amounts) for the relevant Terminated Transaction or group of Terminated Transactions."

12 Some transaction party (other than Party A) should be required to assist Party B in making this determination.

(iv) At any time on or before the Early Termination Date at which two or more Market Quotations have been communicated to Party B and remain capable of becoming legally binding upon acceptance by Party B, Party B shall be entitled to accept only the lowest of such Market Quotations (for the avoidance of doubt, (i) a Market Quotation expressed as a negative number is lower than a Market Quotation expressed as a positive number and (ii) the lower of two Market Quotations expressed as negative numbers is the one with the largest absolute value).

(v) If Party B requests Party A in writing to obtain Market Quotations, Party A shall use reasonable efforts to do so before the Early Termination Date.

(vi) If the Settlement Amount is a negative number, Section 6(e)(i)(3) of this Agreement shall be deleted in its entirety and replaced with the following:

""Second Method and Market Quotation." If Second Method and Market Quotation apply, (1) Party B shall pay to Party A an amount equal to the absolute value of the Settlement Amount in respect of the Terminated Transactions, (2) Party B shall pay to Party A the Termination Currency Equivalent of the Unpaid Amounts owing to Party A and (3) Party A shall pay to Party B the Termination Currency Equivalent of the Unpaid Amounts owing to Party B, Provided that, (i) the amounts payable under (2) and (3) shall be subject to netting in accordance with Section 2(c) of this Agreement and (ii) notwithstanding any other provision of this Agreement, any amount payable by Party A under (3) shall not be netted against any amount payable by Party B under (1)."[13]

(j) *Transfers.*

(i) Subject to Section 6(b)(ii) and Part 5(j)(ii) below, Party A may not transfer (whether by way of security or otherwise) any interest or obligation in or under this Agreement without the prior written consent of Party B.

(ii) Subject to giving prior written notification to Party B, if the First Rating Trigger Requirements apply, Party A may (at its own cost) transfer all or substantially all its rights and obligations with respect to this Agreement to any other entity (a **"Transferee"**) that is an Eligible Replacement such that the Transferee contracts with Party B on terms that:

(x) have the effect of preserving for Party B the economic equivalent of all payment and delivery obligations (whether absolute or contingent and assuming the satisfaction of each applicable condition precedent) under this Agreement immediately before such transfer; and

(y) are, in all material respects, no less beneficial for Party B than the terms of this Agreement immediately before such transfer, as determined by Party B.

(iii) In determining whether or not a transfer satisfies the condition in sub-paragraph (y) of Part 5(j)(ii) above, Party B shall act in a commercially reasonable manner[14].

(iv) If an entity has made a Firm Offer (which remains capable of becoming legally binding upon acceptance) to be the transferee of a transfer to be made in accordance with Part 5(j)(ii) above, Party B shall, at Party A's written request and cost, take any reasonable steps required to be taken by it to effect such transfer.

13 This sub-paragraph (vi) is not required if the ISDA Credit Support Annex (English law) is used.
14 Some transaction party (other than Party A) should be required to assist Pary B in making this determination.

(k) *Moody's Notifications.*

Notwithstanding any other provision of this agreement, this Agreement shall not be amended, no Early Termination Date shall be effectively designated by Party B, and no transfer of any rights or obligations under this agreement shall be made unless Moody's has been given prior written notice of such amendment, designation or transfer.

(l) *Definitions.*

For the purpose of this Agreement:

"Eligible Guarantee" means an unconditional and irrevocable guarantee that is provided by a guarantor as principal debtor rather than surety and is directly enforceable by Party B, where (A) a law firm has given a legal opinion confirming that none of the guarantor's payments to Party B under such guarantee will be subject to deduction or withholding for Tax and such opinion has been delivered to Moody's, (B) such guarantee provides that, in the event that any of such guarantor's payments to Party B are subject to deduction or withholding for Tax, such guarantor is required to pay such additional amount as is necessary to ensure that the net amount actually received by Party B (free and clear of any tax) will equal the full amount Party B would have received had no such deduction or withholding been required or (C) in the event that any payment under such guarantee is made net of deduction or withholding for Tax, Party A is required, under Section 2(a)(i), to make such additional payment as is necessary to ensure that the net amount actually received by Party B from the guarantor will equal the full amount Party B would have received had no such deduction or withholding been required.

"Eligible Replacement" means an entity (A) with the Second Trigger Required Ratings or (B) whose present and future obligations owing to Party B under this Agreement (or its replacement, as applicable) are guaranteed pursuant to an Eligible Guarantee provided by a guarantor with the Second Trigger Required Ratings[15].

"Firm Offer" means an offer which, when made, was capable of becoming legally binding upon acceptance.

"Moody's Short-term Rating" means a rating assigned by Moody's under its short-term rating scale in respect of an entity's short-term, unsecured and unsubordinated debt obligations.

"Relevant Entities" means Party A and any guarantor under an Eligible Guarantee in respect of all of Party A's present and future obligations under this Agreement[16].

The **"First Rating Trigger Requirements"** shall apply so long as no Relevant Entity has the First Trigger Required Ratings.

An entity shall have the **"First Trigger Required Ratings"** (A) where such entity is the subject of a Moody's Short-term Rating, if such rating is "**Prime-1**" and its long-term, unsecured and unsubordinated debt or counterparty obligations are rated "**A2**" or above by Moody's and (B) where such entity is not the subject of a Moody's Short-term Rating, if its long-term, unsecured and unsubordinated debt or counterparty obligations are rated "**A1**" or above by Moody's.

15 If any tax opinions are required in relation to the original hedge (see Section XI above), there should be an additional requirement incorporated in the definition of "Eligible Replacement" to the effect that either (i) the relevant opinions are delivered to Moody's in relation to the hedge provided by the Eligible Replacement or (ii) the terms of the new hedge are amended so as to avoid the need for opinions.

16 In order for a guarantor to be a Relevant Entity, the guarantee should cover both payment and delivery obligations of Party A.

The **"Second Rating Trigger Requirements"** shall apply so long as no Relevant Entity has the Second Trigger Required Ratings.

An entity shall have the **"Second Trigger Required Ratings"** (A) where such entity is the subject of a Moody's Short-term Rating, if such rating is "**Prime-2**" or above and its long-term, unsecured and unsubordinated debt or counterparty obligations are rated "**A3**" or above by Moody's and (B) where such entity is not the subject of a Moody's Short-term Rating, if its long-term, unsecured and unsubordinated debt or counterparty obligations are rated "**A3**" or above by Moody's.

PARAGRAPH 11 OF THE ISDA CREDIT SUPPORT ANNEX (ENGLISH LAW)[1]

(a) *Base Currency and Eligible Currency.*

(i) **"Base Currency"** means [*For currency swap or combined interest rate/currency swap, insert the currency of the Notes. For single-currency swap, insert the currency of the swap.*]

(ii) **"Eligible Currency"** means the Base Currency[2].

(b) *Credit Support Obligations.*

(i) *Delivery Amount and Return Amount*.

(A) Paragraph 2(a) (Delivery Amount) shall apply, except that:

(i) the words "upon a demand made by the Transferee on or promptly following a Valuation Date" shall be deleted and replaced by the words "not later than the close of business on each Valuation Date";

(ii) the sentence beginning "Unless otherwise specified in Paragraph 11(b)" shall be deleted in its entirety and replaced with the following:

"The **"Delivery Amount"** applicable to the Transferor for any Valuation Date will equal the greatest of:

(1) the amount by which the Moody's Credit Support Amount exceeds the Value (determined using the Moody's Valuation Percentages) of the Transferor's Credit Support Balance (adjusted to include any prior Delivery Amount and to exclude any prior Return Amount, the transfer of which, in each case, has not yet been completed and for which the relevant Settlement Day falls on or after such Valuation Date)[;

(2) the amount by which the [*ABC Rating Agency*] Credit Support Amount exceeds the Value (determined using the [*ABC Rating Agency*] Valuation Percentages) of the Transferor's Credit Support Balance (adjusted to include any prior Delivery Amount and to exclude any prior Return Amount, the transfer of which, in each case, has not yet been completed and for which the relevant Settlement Day falls on or after such Valuation Date); and

(3) the amount by which the [*XYZ Rating Agency*] Credit Support Amount exceeds the Value (determined using the [*XYZ Rating Agency*] Valuation Percentages) of the Transferor's Credit Support Balance (adjusted to include any prior Delivery Amount and to exclude any prior Return Amount, the transfer of which, in each case, has not yet been completed and for which the relevant Settlement Day falls on or after such Valuation Date)]."; and

(iii) if, on any Valuation Date, the Delivery Amount equals or exceeds the Transferor's Minimum Transfer Amount, the Transferor will transfer to the Transferee sufficient Eligible Credit Support to ensure that, immediately following such transfer, the Delivery Amount shall be zero.

1 The pro forma provisions also apply to the ISDA Credit Support Annex (New York law), subject to making the necessary modifications.
2 Also specify any other currencies in which cash may be posted.

(B) Paragraph 2(b) (Return Amount) shall apply, except that:

(i) the sentence beginning "Unless otherwise specified in Paragraph 11(b)" shall be deleted in its entirety and replaced by the following:

"The **"Return Amount"** applicable to the Transferee for any Valuation Date will equal the least of:

(1) the amount by which the Value (determined using the Moody's Valuation Percentages) of the Transferor's Credit Support Balance (adjusted to include any prior Delivery Amount and to exclude any prior Return Amount, the transfer of which, in each case, has not yet been completed and for which the relevant Settlement Day falls on or after such Valuation Date) exceeds the Moody's Credit Support Amount [;

(2) the amount by which (a) the Value (determined using the [*ABC Rating Agency*] Valuation Percentages) of the Transferor's Credit Support Balance (adjusted to include any prior Delivery Amount and to exclude any prior Return Amount, the transfer of which, in each case, has not yet been completed and for which the relevant Settlement Day falls on or after such Valuation Date) exceeds (b) the [*ABC Rating Agency*] Credit Support Amount; and

(3) the amount by which (a) the Value (determined using the [*XYZ Rating Agency*] Valuation Percentages) of the Transferor's Credit Support Balance (adjusted to include any prior Delivery Amount and to exclude any prior Return Amount, the transfer of which, in each case, has not yet been completed and for which the relevant Settlement Day falls on or after such Valuation Date) exceeds (b) the [*XYZ Rating Agency*] Credit Support Amount]."; and

(ii) in no event shall the Transferee be required to transfer any Equivalent Credit Support under Paragraph 2(b) if, immediately following such transfer, the Delivery Amount would be greater than zero.

(ii) *Eligible Credit Support*.

[*Insert Table 5A, 5B, 5C, 5D or 5E (as applicable) from the Framework, and delete the "Daily" or "Weekly" column, as appropriate. Insert the following wording after the table:* **"Moody's Valuation Percentages"** means, in respect of each instrument in the above table, (i) so long as the Moody's Threshold for Party A is zero and either (A) the Second Rating Trigger Requirements do not apply or (B) less than 30 Local Business Days have elapsed since the last time the Second Rating Trigger Requirements did not apply, the corresponding percentage in the column headed "First Trigger" and (ii) so long as (A) the Second Rating Trigger Requirements apply and (B) at least 30 Local Business Days have elapsed since the last time the Second Rating Trigger Requirements did not apply, the corresponding percentage in the column headed "Second Trigger".]

(iii) *Thresholds*.

(A) **"Independent Amount"** means with respect to Party A and Party B: zero

(B) **"Moody's Threshold"** means, (A) so long as the First Rating Trigger Requirements apply and either (i) the First Rating Trigger Requirements have applied since this Annex was executed or (ii) at least 30 Local Business days have elapsed since the last time the First Rating Trigger Requirements did not apply, zero and (B) at any other time, infinity.

"[*ABC Rating Agency*] Threshold" means [*to be inserted*].

"[*XYZ Rating Agency*] Threshold" means [*to be inserted*].

(C) **"Minimum Transfer Amount"** means with respect to Party A and Party B: [*Base Currency*] 100,000.

(D) ***Rounding*.** The Delivery Amount will be rounded up to the nearest integral multiple of [*Base Currency*] 10,000 and the Return Amount will be rounded down to the nearest integral multiple of [*Base Currency*] 10,000.

(iv) **"Exposure"** has the meaning specified in Paragraph 10, except that (1) after the word "Agreement" the words "(assuming, for this purpose only, that Part 5(i) (Close-Out Calculations) of the Schedule is deleted)" shall be inserted and (2) at the end of the definition of Exposure, the words "with terms that are, in all material respects, no less beneficial for Party B than those of this Agreement" shall be added.

(c) *Valuation and Timing*.

(i) **"Valuation Agent"** means Party A in all circumstances.

(ii) **"Valuation Date"** means [the first Local Business Day in each week / each Local Business Day[3]].

(iii) **"Valuation Time"** means the close of business in the city of the Valuation Agent on the Local Business Day immediately preceding the Valuation Date or date of calculation, as applicable, Provided that the calculations of Value and Credit Support Amount will, as far as practicable, be made as of approximately the same time on the same date.

(iv) **"Notification Time"** means 11:00 a.m., [London / New York[3]] time, on a Local Business Day.

(d) *Exchange Date*.

"**Exchange Date**" has the meaning specified in Paragraph 3(c)(ii).

(e) *Dispute Resolution*.

(i) **"Resolution Time"** means 1:00 p.m., [London / New York[3]] time on the Local Business Day following the date on which the notice is given that gives rise to a dispute under Paragraph 4.

(ii) ***Value*.** For the purpose of Paragraphs 4(a)(4)(i)(C) and 4(a)(4)(ii), on any date the Value of the outstanding Credit Support Balance or of any transfer of Eligible Credit Support or Equivalent Credit Support, as the case may be, will be calculated as follows:

(A) with respect to any Eligible Credit Support or Equivalent Credit Support comprising securities (**"Securities"**) the Base Currency Equivalent of the sum of (a)(x) the last bid price on such date for such Securities on the principal national securities exchange on which such Securities are listed, multiplied by the applicable Valuation Percentage; or (y) where any Securities are not listed on a national securities exchange, the bid price for such Securities quoted as at the close of business on such date by any principal market maker (which shall not be and shall be independent from the Valuation Agent) for such Securities chosen by the Valuation Agent, multiplied by the applicable Valuation Percentage; or (z) if no such bid price is listed or quoted for such date, the last bid price listed or quoted (as the case may be), as of the day next preceding such date on which such prices were

3 Delete as appropriate.

available, multiplied by the applicable Valuation Percentage; plus (b) the accrued interest where applicable on such Securities (except to the extent that such interest shall have been paid to the Transferor pursuant to Paragraph 5(c)(ii) or included in the applicable price referred to in subparagraph (a) above) as of such date; and

(B) with respect to any Cash, the Base Currency Equivalent of the amount thereof.

(iii) ***Alternative***. The provisions of Paragraph 4 will apply.

(f) *Distributions and Interest Amount*.

(i) **"Interest Rate"** means [*to be inserted*].

(ii) ***Transfer of Interest Amount*.** The transfer of the Interest Amount will be made on [*to be inserted*] or, if that date is not a Valuation Date, the next following Valuation Date.

(iii) ***Alternative to Interest Amount*.** Paragraph 5(c)(ii) will apply, Provided that Party B shall not be obliged to transfer any Interest Amount unless and until it has earned and received such Interest Amount.

(iv) **"Distributions"** means, with respect to any Eligible Credit Support comprised in the Credit Support Balance consisting of securities, all principal, interest and other payments and distributions of cash or other property to which a holder of securities of the same type, nominal value, description and amount as such Eligible Credit Support would have received from time to time.

(v) **"Distribution Date"** means, with respect to any Eligible Credit Support comprised in the Credit Support Balance other than cash, each date on which a holder of such Eligible Credit Support would have received Distributions or, if that date is not a Valuation Date, the next following Valuation Date.

(g) *Other Provisions*.

(i) *Transfer Timing*. The following words shall be inserted at the end of the final paragraph of Paragraph 3(a): "Provided that any transfer of Eligible Credit Support by the Transferor pursuant to Paragraph 2(a) shall be made not later than the close of business on the relevant Valuation Date, regardless of whether any demand for transfer is received."

(ii) *Early Termination*. The heading for Paragraph 6 shall be deleted and replaced with "Early Termination" and the following shall be added after the word "Default" in the first line of Paragraph 6, "in relation to all Transactions or a Termination Event in relation to all Transactions".

(iii) *Expenses*. Notwithstanding Paragraph 8, the Transferor will be responsible for, and will reimburse the Transferee for, all transfer and other taxes and other costs involved in the transfer of Eligible Credit Support either from the Transferor to the Transferee or from the Transferee to the Transferor pursuant to this Annex.

(iv) *Single Transferor and Single Transferee*. Party A shall always be the Transferor and Party B shall always be the Transferee.

(v) *Moody's Criteria*[4].

"Moody's Credit Support Amount" means, for any Valuation Date:

(A) if the Moody's Threshold is infinity, zero;

(B) if the Moody's Threshold is zero and (1) the Second Rating Trigger Requirements do not apply or (2) less than 30 Local Business Days have elapsed since the last time the Second Rating Trigger Requirements did not apply, the greater of:

(i) zero; and

(ii) the sum of (x) the Transferee's Exposure and (y) the aggregate of the Moody's First Trigger Additional Amounts in respect of such Valuation Date for all Transactions (other than the Transaction constituted by this Annex); and

(C) if the Second Rating Trigger Requirements apply and 30 or more Local Business Days have elapsed since the last time the Second Rating Trigger Requirements did not apply, the greater of:

(i) zero;

(ii) the aggregate amount of the Next Payments (each determined based on the rates prevailing on such Valuation Date) for all Next Payment Dates; and

(iii) the sum of (x) the Transferee's Exposure and (y) the aggregate of the Additional Second Trigger Collateral Amounts in respect of such Valuation Date for all Transactions (other than the Transaction constituted by this Annex).

"Moody's First Trigger Additional Amount"[5] means, for any Valuation Date:

(A) in respect of any Transaction that is a cross-currency hedge, the lesser of (x) the sum of (1) the product of the Transaction Notional Amount for such Transaction for the Calculation Period which includes such Valuation Date and the Moody's First Trigger Cross Currency Notional Amount Lower Multiplier and (2) the product of the Moody's First Trigger Cross Currency DV01 Multiplier and the Transaction Cross Currency DV01 for such Transaction and (y) the product of the Moody's First Trigger Cross Currency Notional Amount Higher Multiplier and the Transaction Notional Amount for such Transaction for the Calculation Period which includes such Valuation Date; and

(B) in respect of any Transaction that is not a cross-currency hedge, the lesser of (x) the product of the Moody's First Trigger Single Currency DV01 Multiplier and the Transaction Single Currency DV01 for such Transaction and (y) the product of the Moody's First Trigger Single Currency Notional Amount Multiplier and the Transaction Notional Amount for such Transaction for the Calculation Period which includes such Valuation Date.

"Moody's First Trigger Cross Currency DV01 Multiplier" means, (A) if each Local Business Day is a Valuation Date, 10 and (B) otherwise, 20.

"Moody's First Trigger Cross Currency Notional Amount Higher Multiplier" means, (A) if each Local Business Day is a Valuation Date, 0.025 and (B) otherwise, 0.05.

4 The provisions in this sub-paragraph (v) cater for all types of swaps covered by the Framework.
5 This definition assumes DV01 is to be used. It may be replaced with alternative language based on *Table 4A-2* of the Framework.

“Moody's First Trigger Cross Currency Notional Amount Lower Multiplier” means, (A) if each Local Business Day is a Valuation Date, 0.01 and (B) otherwise, 0.02.

“Moody's First Trigger Single Currency DV01 Multiplier” means, (A) if each Local Business Day is a Valuation Date, 15 and (B) otherwise, 25.

“Moody's First Trigger Single Currency Notional Amount Multiplier” means, (A) if each Local Business Day is a Valuation Date, 0.02 and (B) otherwise, 0.04.

“Moody's Second Trigger Additional Amount”[6] means, for any Valuation Date:

(A) in respect of any Transaction that is both a cross-currency hedge and an Optionality Hedge, the lesser of (x) the sum of (1) the product of Transaction Notional Amount for such Transaction for the Calculation Period which includes such Valuation Date and the Moody's Second Trigger Cross Currency Notional Amount Lower Multiplier and (2) the product of the Moody's Second Trigger Cross Currency DV01 Multiplier (Optionalilty) and the Transaction Cross Currency DV01 for such Transaction and (y) the product of the Moody's Second Trigger Cross Currency Notional Amount Higher Multiplier (Optionality) and the Transaction Notional Amount for such Transaction for the Calculation Period which includes such Valuation Date;

(B) in respect of any Transaction that is a cross-currency hedge and is not an Optionality Hedge, the lesser of (x) the sum of (1) the product of Transaction Notional Amount for such Transaction for the Calculation Period which includes such Valuation Date and the Moody's Second Trigger Cross Currency Notional Amount Lower Multiplier and (2) the Moody's Second Trigger Cross Currency DV01 Multiplier and the Transaction Cross Currency DV01 for such Transaction and (y) the product of the Moody's Second Trigger Cross Currency Notional Amount Higher Multiplier and the Transaction Notional Amount for such Transaction for the Calculation Period which includes such Valuation Date;

(C) in respect of any Transaction that is not a cross-currency hedge and is an Optionality Hedge, the lesser of (x) the product of the Moody's Second Trigger Single Currency DV01 Multiplier (Optionality) and the Transaction Single Currency DV01 for such Transaction and (y) the product of the Moody's Second Trigger Single Currency Notional Amount Multiplier (Optionality) and the Transaction Notional Amount for such Transaction for the Calculation Period which includes such Valuation Date; and

(D) in respect of any Transaction that is neither a cross-currency hedge nor an Optionality Hedge, the lesser of (x) the product of the Moody's Second Trigger Single Currency DV01 Multiplier and the Transaction Single Currency DV01 for such Transaction and (y) the product of the Moody's Second Trigger Single Currency Notional Amount Multiplier and the Transaction Notional Amount for such Transaction for the Calculation Period which includes such Valuation Date.

“Moody's Second Trigger Cross Currency DV01 Multiplier” means, (A) if each Local Business Day is a Valuation Date, 15 and (B) otherwise, 25.

“Moody's Second Trigger Cross Currency DV01 Multiplier (Optionality)” means, (A) if each Local Business Day is a Valuation Date, 30 and (B) otherwise, 40.

“Moody's Second Trigger Cross Currency Notional Amount Higher Multiplier” means, (A) if each Local Business Day is a Valuation Date, 0.09 and (B) otherwise, 0.1.

6 This definition assumes DV01 is to be used. It may be replaced with alternative language based on *Tables 4B-2* and *4B-3* of the Framework.

“Moody's Second Trigger Cross Currency Notional Amount Higher Multiplier (Optionality)” means, (A) if each Local Business Day is a Valuation Date, 0.11 and (B) otherwise, 0.12.

“Moody's Second Trigger Cross Currency Notional Amount Lower Multiplier” means, (A) if each Local Business Day is a Valuation Date, 0.06 and (B) otherwise, 0.07.

“Moody's Second Trigger Single Currency DV01 Multiplier” means, (A) if each Local Business Day is a Valuation Date, 50 and (B) otherwise, 60.

“Moody's Second Trigger Single Currency DV01 Multiplier (Optionality)” means, (A) if each Local Business Day is a Valuation Date, 65 and (B) otherwise, 75.

“Moody's Second Trigger Single Currency Notional Amount Multiplier” means, (A) if each Local Business Day is a Valuation Date, 0.08 and (B) otherwise, 0.09.

“Moody's Second Trigger Single Currency Notional Amount Multiplier (Optionality)” means, (A) if each Local Business Day is a Valuation Date, 0.10 and (B) otherwise, 0.11.

“Next Payment” means, in respect of each Next Payment Date, the greater of (i) the Base Currency Equivalent of any payments[7] due to be made by Party A under Section 2(a) on such Next Payment Date less the Base Currency Equivalent of any payments[4] due to be made by Party B under Section 2(a) on such Next Payment Date and (ii) zero.

“Next Payment Date” means each date on which the next scheduled payment under any Transaction (other than the Transaction constituted by this Annex) is due to be paid.

“Optionality Hedge” means any Transaction that is a cap, floor, swaption, or a Transaction-Specific Hedge.

“Transaction Cross Currency DV01” means, with respect to a Transaction and any date of determination, the greater of (i) the estimated change in the mid-market value with respect to such Transaction that would result from a one basis point change in the relevant swap curve (denominated in the currency of Party A's payment obligations under such Transaction) on such date and (ii) the estimated change in the mid-market value with respect to such Transaction that would result from a one basis point change in the relevant swap curve (denominated in the currency of Party B's payment obligations under such Transaction) on such date, in each case as determined by the Valuation Agent in good faith and in a commercially reasonable manner in accordance with the relevant methodology customarily used by the Valuation Agent.

“Transaction Notional Amount” means (A) in respect of any Transaction that is a cross currency hedge, the Base Currency Equivalent of the Currency Amount applicable to Party A’s payment obligations and (B) in respect of any other Transaction, the Base Currency Equivalent of the Notional Amount.

“Transaction Single Currency DV01” means, with respect to a Transaction and any date of determination, the estimated change in the mid-market value with respect to such Transaction that would result from a one basis point change in the relevant swap curve on such date, as determined by the Valuation Agent in good faith and in a commercially reasonable manner in accordance with the relevant methodology customarily used by the Valuation Agent.

7 May exclude exchanges of notional under cross-currency Transactions.

“Transaction-Specific Hedge” means any Transaction in respect of which the Transaction Notional Amount for each Calculation Period is “balance guaranteed” or otherwise not an amount that is fixed at the inception of the Transaction.

(vi) **[***ABC Rating Agency***]** ***Criteria***.

“*[ABC Rating Agency]* **Credit Support Amount”** means:

(A) if the [*ABC Rating Agency*] Threshold is infinity, zero; and

(B) if the [*ABC Rating Agency*] Threshold is zero, [*to be inserted*].

(vii) **[***XYZ Rating Agency***]** ***Criteria***.

“*[XYZ Rating Agency]* **Credit Support Amount”** means:

(A) if the [*XYZ Rating Agency*] Threshold is infinity, zero; and

(B) if the [*XYZ Rating Agency*] Threshold is zero, [*to be inserted*].

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