

ISDA Uniform Settlement Agreement (USA) FAQ

The questions below are intended for participants in the CDS market who have questions regarding the purpose of, and how to sign, the Uniform CDS Settlement Agreement for Aiful Corporation.

THIS FREQUENTLY ASKED QUESTIONS DOES NOT PURPORT TO BE AND SHOULD NOT BE CONSIDERED A GUIDE TO OR AN EXPLANATION OF ALL RELEVANT ISSUES OR CONSIDERATIONS IN CONNECTION WITH THE AIFUL USA. PARTIES SHOULD CONSULT WITH THEIR LEGAL ADVISERS AND ANY OTHER ADVISER THEY DEEM APPROPRIATE PRIOR TO USING OR SIGNING THE USA. ISDA ASSUMES NO RESPONSIBILITY FOR ANY USE TO WHICH ANY OF ITS DOCUMENTATION OR OTHER DOCUMENTATION MAY BE PUT.

What is a uniform settlement agreement? A uniform settlement agreement (a “USA”) is a contract signed by major dealers and the clients with whom they have a large number of transactions, after, in this case, a determination by the relevant Credit Derivatives Determinations Committee that a credit event has occurred.

The parties to a USA agree amongst themselves that a credit event notice is deemed to have been validly delivered for all covered credit derivative transactions between them which reference the relevant entity. Transactions with counterparties that have not signed up to the USA are not affected.

Please note that under the terms of the credit derivatives definitions, as amended by the implementation of the big bang protocol, credit event notices are not required where the relevant credit event is of a type other than a Restructuring. However, in the case of a Restructuring (as for Aiful Corporation), parties are still required to manually trigger their transactions.

Why is a uniform settlement agreement beneficial? Signing a USA avoids the operational burden of having to send or wait to receive notices between the most active participants in the CDS market. This significantly reduces the overall number of notices that must be sent or processed internally.

The feedback received by ISDA is that there is likely to be sufficient demand to trigger transactions and as such, sufficient demand for this USA.

ISDA also understands that broad uptake of the USA will benefit the trade compression process that is currently underway.

ISDA is liaising with DTCC to ensure the smooth and efficient running of the triggering process.

Please note, however, that by signing the USA, a party agrees to trigger all covered transactions between it and any other institutions that sign the USA. It is not possible to sign the USA in respect of only some but not all covered transactions.

Does my institution have to sign up? No. Market participants may prefer to trigger trades individually through DTCC or by delivery of a credit event notice to the relevant counterparties. To be valid, credit event notices must be delivered before 4pm in the Calculation Agent City on the "Exercise Cut-Off Date" (the last day that is a business day in Tokyo and London before the date on which the Auction Final Price is determined, i.e. the last such day before the Auction Date). ISDA will publish the Exercise Cut-off Date and the date of the Auction on the ISDA website as soon as the DC fixes the Auction Date.

Which transactions would be triggered by signing up to the USA for Aiful Corporation?

The USA for Aiful Corporation applies to transactions (i) to which the Japan Determinations Committee's determination of a Credit Event in respect of Aiful Corporation applies and in respect of which (ii) (a) Multiple Holder Obligation is specified as not applicable, (b) neither "Restructuring Maturity Limitation and Fully Transferable Obligation" or "Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation" applies and (c) "Buyer or Seller" is specified in the related Confirmation as Notifying Parties or neither party is specified in the related Confirmation as the Notifying Party where (iii) both parties adhere to the USA.

Please note that the terms described in (a), (b) and (c) of (ii) in the paragraph immediately above may apply either because the Credit Derivatives Physical Settlement Matrix is incorporated or because they are specified in any other way (whether in the confirmation itself, by operation of a MCA or otherwise).

We also note that index trades for which Aiful Corporation is a constituent of the relevant index (which includes a number of iTraxx Japan indices) will be covered, provided that the criteria above are satisfied.

Is it necessary to sign up to the USA in order for trades to be covered by the forthcoming Auction in respect of Aiful Corporation?

No. Transactions will be settled at the Final Price determined pursuant to the forthcoming Auction provided that (i) they are subject to the July 2009 Supplement to the 2003 ISDA Credit Derivatives Definitions and (ii) they are triggered in accordance with their terms (whether this is done manually or by signing up to the USA).

What is the deadline for signing up to the USA mentioned above?

Please note that the deadline for signing up to the USA has been extended until 4pm, London time, on Friday 26th February 2010, in order to provide the opportunity for a greater number of market participants to adhere as the Japan DC continues to progress the steps required to hold an auction for Aiful. Parties that signed up to the previous form of the USA which included an earlier deadline and which was superseded on 22 January have been contacted separately to make appropriate arrangements.

For the avoidance of doubt and in response to queries received by ISDA, we note that the extension of this deadline does not affect the “Credit Event Backstop Date” as defined in the 2003 Credit Derivatives Definitions, as amended and supplemented. The Credit Event Backstop Date is determined, in accordance with the Definitions, by reference to the “Credit Event Resolution Request Date” (which is published on the ISDA credit derivatives website). In the case of the Aiful Restructuring Credit Event, this date was 24 December 2009.

From the end of the adherence period, market participants will know which trades have been triggered by this USA and the intention is that they will then have time to manually trigger any they wish to trigger that do not fall under this USA (up to the Exercise Cut-Off Date).

As mentioned above, ISDA is informed that there is likely to be sufficient demand to trigger transactions following this Restructuring Credit Event. As mentioned above, a feature of the Restructuring Credit Event in respect of Aiful Corporation is that the covered transactions specify unmodified Restructuring (rather than Mod R or Mod Mod R) and buyers of protection will therefore not be required to evaluate separate maturity buckets. ISDA notes that it is for this reason that the Japan Determinations Committee favoured publication at this time of a USA for Aiful.

How do I sign up? Each firm wishing to sign up to the USA for Aiful Corporation should email a copy of the signature page, completed with (i) the full legal name of the entity signing, (ii) the corresponding DTCC account number (to assist in identifying counterparties who have signed) and (iii) a signature for such entity. Signature pages must be emailed to ***each of*** the following addresses before 4pm, London time, on Friday 26th February 2010:

Jonah.Platt@AllenOvery.com AND Simon.Dawson@AllenOvery.com

Please do not email signature pages to ISDA.

On each day to and including the announced deadline, Allen & Overy will provide to each entity that has agreed to sign the USA an update setting out the full list of entities which have signed the USA at such time.