

# Guidelines for Credit Default Swap (CDS) Reference Rate Publication System

## 1. Outline

- The Tokyo International Financial Futures Exchange ('TIFFE') will publish CDS Reference Rates, *i.e.*, the rates calculated based on the offer/bid rates ('Indicative Rates') with respect to credit default swap ('CDS') transactions. Those Indicative Rates will be provided by the financial institutions designated by TIFFE ('Designated Financial Institutions'). Publication of CDS Reference Rates by TIFFE aim at providing reference information to facilitate CDS transactions by financial institutions, institutional investors, etc. and utilizing the Reference Rates as settlement prices for new CDS products \* to be listed on the TIFFE market in the future.

\* New CDS products are scheduled to be listed in fiscal 2005.

- For the purpose of this system, a CDS transaction means a contract in which one party will pay the other party the fee equivalent to the contracted principal amount multiplied by a mutually agreed rate ('spread'), as the credit risk of a specific entity ('Reference Entity'), and will receive the contracted principal amount from the other party in exchange for transferring the credit of the same value claimable to the Reference Entity in the case where any credit event defined in the contract between the parties has occurred to the Reference Entity ('Physical Settlement').

## 2. Displayed Contracts

### (1) Selection of Displayed Contracts

- Among the CDS contracts specified by the Designated Financial Institutions for providing Indicative Rates ('Specified Contracts'), TIFFE will select the CDS contracts specified by 5 or more Designated Financial Institutions as Displayed Contracts and publish the CDS Reference Rates for such Displayed Contracts.
- When Displayed Contracts are changed (added or removed), according to the aforesaid criteria, TIFFE will announce such change 5 business days in advance.

### (2) Removal from Displayed Contracts

- TIFFE may remove any Displayed Contracts in the case of any of the following events:
  - a. The concerned Reference Entity has filed for bankruptcy, or for commencement of proceedings for civil rehabilitation, special liquidation, corporate arrangement or corporate reorganization.
  - b. Any other case where such removal is deemed necessary by TIFFE.
- When TIFFE removes Displayed Contracts, TIFFE will announce such removal in advance.

## 3. CDS Reference Rates

### (1) Calculation of CDS Reference Rates

- A CDS Reference Rate of each of the Displayed Contracts is the average of the offer-bid middle rates provided by the Designated Financial Institutions, excluding a specific number of both the highest and lowest rates respectively ('top and bottom cut'), rounded off to the second decimal place.

- The top and bottom cut is made by excluding the highest rates of the number of exclusion indicated below and the lowest rates of the same number, such number of exclusion being determined according to the number of Designated Financial Institutions providing the Indicative Rates for each of the Specified Contracts.

Number of Designated Financial Institutions	Number of exclusion
5 to 7	1 (Total 2)
8 to 14	2 (Total 4)
15 to 21	3 (Total 6)
22+	4 (Total 8)

## **(2) Manner of Publication of CDS Reference Rates, Etc.**

- TIFFE will publish a Reference Rate of each of the Displayed Contracts around 5:30 p.m. of each business day in the prescribed manner.
- TIFFE will not publish the Reference Rate of any of the Displayed Contracts for which TIFFE cannot obtain the Indicative Rates from 5 or more Designated Financial Institutions by 5:00 p.m. of each business day.
- TIFFE will not publish the individual Indicative Rates provided by the respective Designated Financial Institutions.
- TIFFE will publish the following information together with CDS Reference Rates.
  - a. Number of Designated Financial Institutions providing Indicative Rates for each Displayed Contract
  - b. Variation of CDS Reference Rates from those on the previous business day

## **4. Designated Financial Institutions**

### **(1) Designated Financial Institutions**

- The Designated Financial Institutions providing the Indicative Rates for CDS contracts will be appointed by TIFFE.
- A Designated Financial Institution is required to possess a knowledgeable and experienced staffing capable of fair and appropriate execution to provide Indicative Rates and a sufficient social credibility.
- If TIFFE deems that any Designated Financial Institution has committed improper conducts or made other operation of this publication system that may cause any adverse effect, TIFFE may cancel appointment of such Designated Financial Institution or take any other necessary measures.
- A Designated Financial Institution may resign by giving one month's prior notice to TIFFE in the prescribed form.

### **(2) Specified Contracts**

- Each Designated Financial Institution must specify 20 or more CDS contracts as Specified Contracts in principle.

- If a Designated Financial Institution intends to change its Specified Contracts, such change must be advised to TIFFE 7 business days in advance.
- No Designated Financial Institution is allowed to specify the CDS contracts for which the Reference Entity is itself or its parent company, subsidiary or sub-subsidiary. If any Reference Entity becomes a Designated Financial Institution's affiliated company of any kind as aforesaid due to change in the shareholding structure, etc., the Designated Financial Institution must promptly inform TIFFE and cease to specify the Indicative Rates for such Reference Entity as Specified Contracts.

### **(3) Provision of Indicative Rates**

- A Designated Financial Institution must provide TIFFE with an Indicative Rate of each of Specified Contracts in the prescribed manner, in principle, by 5:00 p.m. of each business day.
- If it is difficult to provide any Indicative Rate, the Designated Financial Institution may refrain from providing such Indicative Rate by giving a notice to TIFFE in the prescribed form.
- No Designated Financial Institution is allowed to make information-sharing or adjustment with any other Designated Financial Institution as for the Indicative Rates to be provided.

### **(4) Criteria for Indicative Rates**

- An Indicative Rate to be provided by a Designated Financial Institution must be a spread (indicated by basis points; ex. 14bps = 0.14%) of a CDS transaction targeting any Reference Entity and satisfying the following conditions, and the said Indicative Rate must be the offer/bid rate based on the most favored rate prevailing on the market at 3:00 p.m. of each business day.
  - The notional principal (floating rate payer calculation amount) is 500 million yen.
  - The effective date is the next business day. The maturity date is the 20<sup>th</sup> day of March, June, September or December, whichever first comes after a lapse of 5 years following the effective date.
  - The debt of the Reference Entity falls under "Borrowed Money" as defined in the 2003 ISDA Credit Derivatives Definitions.
  - The interest payment date is the 20<sup>th</sup> day of each of March, June, September and December, and the interest payable is calculated pro rata on the basis of 360 days a year.
  - The Credit Events are the following 3 events as defined in the 2003 ISDA Credit Derivatives Definitions: (i) Bankruptcy, (ii) Failure to Pay and (iii) Restructuring (Old Restructuring).
  - The Physical Settlement is to be made when any Credit Event occurs.

## **5. Others**

### **(1) Steering Committee**

- TIFFE will establish a Steering Committee composed of the Designated Financial Institutions and others, in order to ensure fair operation of this publication system.

**(2) Revision of System**

- TIFFE may revise this publication system, as and when necessary, based on the discussions with the Steering Committee.
- If this publication system is revised wholly or partly, TIFFE will announce its contents beforehand.

\* *This translation is for reference only, and please refer to the original Japanese texts for accurate interpretation of this translation.*