Working Group on Distributions of Securitized Products

Final Report

March 17, 2009

Japan Securities Dealers Association

Table of Contents

Executive Summary

1. Background and Purpose to Formulation of the Self-regulatory Rules

The Japan Securities Dealers Association (hereinafter referred to as the "JSDA") set up the Working Group on Distributions of Securitized Products (hereinafter referred to as the "WG"). The thinking behind its establishment was that although there have been no cases in the Japanese securitization market where the complexity of the formulation of securitized products has resulted in a problem in localizing risk as has occurred in the U.S. market, it was important to take continuing measures to ensure that the problem did not occur in future. The JSDA produced the Regulations Concerning Distributions, etc. of Securitized Products (hereinafter referred to as the "self-regulatory rules") to serve as that framework.

The self-regulatory rules stipulate that Association Members shall establish procedures to properly communicate information to their customers, who are investors, regarding details and risks (including risk not reflected in the credit rating) of the underlying assets, etc. of the securitized products that they distribute (or following the distribution of said securitized products). The purpose of the rules is to contribute to reviving the function of securitized products transactions from the perspective of enhancing the transparency of securitized product transactions.

2. The Scope of Targeted Securitized Products

The securitized products covered by the self-regulatory rules are Among the securities stipulated in the JSDA's Article 3(company bonds, etc.), Item 1 of the Articles of Association of the JSDA, those securities issued based on the underlying cash flow from specific assets (hereinafter referred to as the "underlying assets") for the main purpose of essentially transferring ownership of the said underlying assets, or those that are issued with reference to the risk of the said underlying assets for the main purpose of essentially transferring the risk of the said underlying assets; provided. The self-regulatory rules include as securitized products without distinction so-called "public offerings" and so-called "private placements", as well as include as securitized products without distinction "primary securitized products" and "secondary securitized products".

In addition, the beneficial interests of trusts those have the same features as securitized products fall outside the coverage of the self-regulatory rules, but they are prescribed in the Guidelines for Financial Instruments Business Supervision (hereinafter referred to as the "Supervision Guidelines"). The self-regulatory rules stipulate that when Association Members distribute the beneficial interests of trusts those have the same features as securitized products, "it is desirable to treat beneficial interests of trusts in a manner equivalent to that for securities covered by the self-regulatory rules."

3. Establishment of Internal Procedures for the Communication, etc., of Details and Risks of Underlying Assets

The self-regulatory rules stipulate that "An Association Member shall establish internal procedures that allow it to carry out properly and accurately the following duties in order to communicate the details and risks of underlying assets, etc. of the securitized products to customers based on sufficient consideration for ensuring the traceability[1] of securitized products". In terms of "carry out the following duties," the self-regulatory rules stipulate collecting and analyzing information prior to and after distributions and communicating that information at the time of and after distributions. In particular, after distributions, the self-regulatory rules stipulate the maximum activities that Association Members carry out as distributors, based on sufficient consideration for the practicality of not only distributors, but also various other participants in securitized product trading, such as issuers, trustees, and servicers, etc., being involved in communicating information to investors.

[1] Traceability is a term that was first used to indicate the calibration process for the precision of measuring instruments or the production and logistics history of food products. In these self-regulatory rules, the term is used with regard to securitized products issued based on multiple assets (underlying assets) or securitized products that are investment schemes that distribute the cash flow arising from the underlying asset based on a preferred and subordinated structure. Traceability means that investors who acquire or hold said securitized products can understand the risk of said securitized products by obtaining information on the details and risk of the underlying assets, etc.

The self-regulatory rules do not set a uniform rule for specific details of "information regarding details and risks of underlying assets, etc. of securitized products" because in many cases securitized products are highly individualistic. Instead, the basic policy is that an "Association Members must think about and decide on their own based on the special features of said securitized product and the category, etc. of said customers."

However, the self-regulatory rules stipulate that "In communicating information in accordance with Article 4, an Association Member may use the separately prescribed Standardized Information Reporting Package (SIRP) as a reference if it judges that its use as a reference is appropriate". The SIRP produced by the WG for four types of products that account for a large proportion of the Japanese securitization market (RMBS, narrowly defined ABS, CLO, and CMBS) is a common point of view on "information provided by the information producer" and "information necessary to the information acquirer" if typical transactions were assumed, because of the relative commoditization of said securitized products. An Association Member does not necessarily have to use the SIRP in all cases of distributing the four types of products, on the other hand, when distributing securitized products other than the above four types, said Association Member may use the SIRP as a reference if it judges that its use as a reference is appropriate.

4. Establishment of Procedures for Evaluating, Calculating, and Communicating Theoretical Prices

The Supervision Guidelines stipulate the establishing procedures for evaluating, calculating, and communicating theoretical prices as a focal point. The WG has not included any provisions on this issue in the self-regulatory rules, and decided to continue to appropriately deal with said point using the current JSDA Guidelines ("Points for Securities companies to Consider in Providing Market Price Information", December 8, 2000").

5. Miscellaneous Provisions (treatment of distributing beneficial interests of trusts, and treatment of agency or intermediary actions)

In the case that output types of product categories for the securitized products distributed by an Association Member are beneficial interests of trusts, or in the case that an Association Member does not distribute securitized products but only act as an agent or an intermediary, the self-regulatory rules don't impose any obligation to said Association Member, but stipulate that it is desirable that said Association Member deals with the securitized products in a manner equivalent to that of which output types are company bonds, etc. distributed by an Association Member.

6. Post-Enforcement Revisions of the Self-Regulatory Rules

It is desirable that the self-regulatory rules and the SIRP will be revised as necessary in accordance with changes in financial and economic conditions following their enforcement. The WG makes the recommendations that the JSDA should establish a standing working group that will meet periodically and examine the necessity of revision of the self-regulatory rules (including the information items of the SIRP).

Members List

At February 13, 2009

Chairperson

Atsuo Akai Morgan Stanley Japan Securities Co., Ltd. Managing Director

Deputy Chairpersons

Masayuki Asami Daiwa Securities SMBC Co.Ltd. General Manager Structured Finance Dept.

Tomoyuki Okuzaki Mitsubishi UFJ Securities Co., Ltd. Executive Director Capital Markets Division

Kenichi Takarada Mizuho Securities Co.,Ltd. Joint General Manager Investment Banking Business Promotion Dept.

Member Company representatives

Yukio Egawa Deutsche Securities Inc. Managing Director Head of Securitization Research, Japan Global Securitization Research Global Markets

Naoko Ehara Goldman Sachs Japan Co., Ltd. Vice President Securities Division Compliance

Yukio Osada Nikko Citigroup Limited Director Securitized Products Global Markets

Kazuhiro Kanda Mitsubishi UFJ Trust and Banking Corporation Manager Structured Finance Division 1

Akifumi Sakurai NOMURA SECURITIES CO.,LTD. Executive Director Global Markets Planning Dept.

Riro Sato The Sumitomo Trust & Banking Co.,Ltd. Senior Manager Structured Finance Department

Tetsuya Nagaoka Mizuho Trust & Banking Co.,Ltd Deputy General Manager Structured Products Planning Department

Shun Noguchi Mizuho Bank, Ltd. Senior Manager Securities Division

Tetsuo Furuta OKASAN SECURITIES CO.,LTD. Manager Administrative Dept.

Hiromi Matsumoto Tokai Tokyo Securities Co., Ltd. Senior Vice President Financial Products Business Development Department

Yuzo Yonemoto Merrill Lynch Japan Securities Co.,Ltd. Director Global Structured Credit Products

Observers

Takeshi Aoki Executive Officer Master/Praimary Servicing The First Headquarters

Akira Kawashima The Bank of Tokyo-Mitsubishi UFJ, Ltd. Manager Structuring Department Securitization & Asset Finance Division

Toshiro Kojima Japan Housing Finance Agency Director General Market Operations Department

Motohiro Hatanaka BANK OF JAPAN DIRECTOR Market Infrastructure and Operations Planning Financial Markets Department

Tomohiro Miyasaka CREDIT SUISSE SECURITIES (JAPAN) LIMITED Director Fixed Income Securitized Product Research

Takeshi Mugishima Ministry of Land, Infrastructure, Transport and Tourism Director Land and Real Property Market Division Land and Water Bureau

Tokio Morita Financial Services Agency Director Securities Business Division Supervisory Bureau

Proceedings of Meetings

1st Meeting (March 27, 2008)
(1) Introduction of members
(2) Outline of working group operations
(3) Explanation of the Supervision Guidelines by the FSA
(4)Current state of disclosure and issues in the securitization market
• Mr. Mahaska of Credit Suisse Securities Japan (Securitization of monetary claims)
• Mr. Ohashi of Morgan Stanley Japan Securities (Securitization of real estate)
(5) Definition and scope of securitized products

2nd Meeting (April 10, 2008)
(1) Definition and scope of information on details of underlying assets and risks
• Information disclosure format of BOJ's Workshop on Securitization (RMBS, ABS, and CLO products)
• Information disclosure format of Japan Office of CMSA (CMSA Standards Subcommittee)
(2) Definition and scope of securitized products (Continued from previous meeting)

3rd Meeting (April 23, 2008)
(1) Introduction of Financial Stability Forum Report (FSA)
(2) Definition and scope of details of underlying assets and risks (Continued from previous meeting)
• Information needed by investors to conduct risk/return analysis (Presentation by a securitization analyst)
• Information items that rating agencies consider important in determining ratings (Presentation by a rating agencies)
• Direction of the Unified Information Disclosure Format
(3) Presentation by representative of the Japanese Institute of Certified Public Accountants (JICPA)
• On Auditing the Evaluation of Securitized Products

4th Meeting (May 15, 2008)
(1) The role of information vendors in securitized product information disclosure
• Presentations by representatives of Bloomberg and Quick
(2) The role of rating agencies in the securitization market— focusing on current global information disclosure practice on securitized products
• Presentation by representative of Moody's Japan
(3)Third party inspections of securitized product information disclosure
• Presentation by a Certified Public Accountant
(4) Establishing procedures for collecting and communicating details and risks of underlying assets
• Establishing procedures
• Presentations by representatives of Morgan Stanley Japan Securities and Mizuho Securities
• Counterparties in information communicating

5th Meeting (May 27, 2008)
(1) Establishing procedures for collecting and communicating details and risks of underlying assets (Continued from previous meeting)
(2) Internal procedures on evaluating, calculating, and communicating theoretical prices

6th Meeting (June 5, 2008)
(1) Establishing procedures for collecting and communicating details and risks of underlying assets (Wrap up)
(2) Internal procedures on evaluating, calculating, and communicating theoretical prices (Wrap up)
(3) Unified Information Disclosure Format Working Draft
• Presentation by the Unified Information Disclosure Format Initiative Team

7th Meeting (June 24, 2008)
(1)Finalizing interim report

8th Meeting (September 5, 2008)
(1) Establishing procedures for evaluating, calculating, and communicating theoretical prices
(2) Treatment of overseas securitized products
(3) Hearings with originators

9th Meeting (September 18, 2008)
(1) Establishing procedures for evaluating, calculating, and communicating theoretical prices
(2) Scope of securitized products

10th Meeting (October 2, 2008)
(1) Scope of securitized products (continued)
(2) Unified Information Disclosure Format (provisional name) (UIDF)
- Survey results
- Practical application of UIDF (including consistency with legal disclosure items)
- Consideration of CMBS originated by banks
- Treatment of information that cannot be included in UIDF
- Rules for periodic revision of UIDF after its introduction

11th Meeting (October 17, 2008)
(1) Unified Information Disclosure Format (provisional name) (UIDF)
- Investigations of UIDF in terms of practical application (including the case of distributions by non-arrangers of products)
- Investigations regarding requesting cooperation of originators that are providing the information in some form
- Investigations of how to include the UIDF in the self-regulatory rules
- Investigations of how to ensure accuracy of information provided by distributors

(2) Treatment of guarantees
(3) Establishing internal procedures to collect and communicate details and risks of underlying assets
- Free discussion

12th Meeting (October 30, 2008)
(1) Establishing internal procedures to collect and communicate details and risks of underlying assets
(2) The scope of securitized products

13th Meeting (November 12, 2008)
(1) Self-regulatory rules

14th Meeting (November 25, 2008)
(1) Self-regulatory rules (continued)
(2) Application methods for self-regulatory rules

15th Meeting (January 27, 2009)
(1) Results of public comment

16th Meeting (February 5, 2009)
(1) Confirmation of WG's opinion of the public comments received and of the final versions of the self-regulatory rules and the Q&A documents.

17th Meeting (February 13, 2009)
(1) The final report.

Foreword

This final report is a summary of the discussions of the Working Group on Distributions of Securitized Products (hereinafter referred to as the "WG), which was established for the purpose of formulating Regulations Concerning Distributions, etc. of Securitized Products (hereinafter referred to as the "self-regulatory rules").

Chapter 1 gives a description of the background leading up to the formulation of the self-regulatory rules and their purpose and significance. Chapter 2 offers an explanation of the self-regulatory rules, and also indicates the WG's thinking and recommendations for handling products and issues not directly reflected in the self-regulatory rules based on the discussions and determinations reached in the WG.

Chapter 1: Regulations Concerning Distributions, etc. of Securitized Products

1. Background to Formulation of the Self-regulatory Rules

In response to the global financial issues arising from the subprime mortgage loan problem in the United States, a variety of measures -- both to manage crises and to overcome the problem over the medium to long term -- are being implemented around the world. Also, various discussions are taking place in Japan and overseas to revive the function of securitized product transactions. For example, internationally, bodies such as the Financial Stability Forum (FSF) and the task force on the subprime crisis of International Organization of Security Commissions (IOSCO) and other committees have discussed from the point of view of supervisory authorities. Meanwhile, the Institute of International Finance (IIF), the Counterparty Risk Management Policy Group (CRMPG), and other bodies have discussed from the point of view of the private sector. In Japan, the Financial Markets Strategy Team, the personal advisory group of then Financial Services Minister Yoshimi Watanabe carried out discussions on the subprime loan problem in November 2007. In addition, commencing in October 2008, the Financial System Council held deliberations on the regulatory framework for credit rating agencies with the proper form of securitized products in mind. Market participants in the private sector also are carrying out a variety of investigations for the purpose of reviving the faltering function of securitized product transactions.

In these domestic and foreign discussion forums, the various parties related to the securitization market (regulatory authorities, originators, arrangers, credit rating agencies, distributors, and investors) are working on such issues as strengthening investors' risk management, improving accounting valuations, rethinking the role of credit rating agencies, and enhancing the transparency of securitized product transactions as the main themes of efforts to revive the function of securitized product transactions.

Among the main themes for reviving the function of securitized product transactions, the first report (November 2007) of the Financial Markets Strategy Team and the Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets (Financial Services Agency (hereinafter referred to as the "FSA"), December 2007) pointed out that ensuring traceability was important for enhancing the transparency of securitized products. To ensure the traceability of securitized products, the FSA made some minor adjustments to the Guidelines for Financial Instruments Business Supervision (hereinafter referred to as the "Supervision Guidelines"), its comprehensive guidelines for financial product trading enterprises (Submitted for public comment on February 6, 2008; enforced on April 2, 2008).

In response to this action, the Japan Securities Dealers Association (hereinafter referred to as the "JSDA") thought that although there have been no cases in the Japanese securitization market where the complexity of the formulation of securitized products has resulted in a problem in localizing risk as has occurred in the U.S. market, it was important to take continuing measures to ensure that the problem did not occur in future. Therefore the JSDA set up the WG to undertake an in-depth investigation for the purpose of establishing a framework that would ensure traceability of the underlying assets of securitized products distributed by Association Members in March 2008. The JSDA produced the self-regulatory rules for securitized products (hereinafter referred to as the "self-regulatory rules") to serve as that framework.

The efforts of the WG have been communicated internationally, being introduced in detail in the Report on Enhancing Market and Institutional Resilience (April 2008) and its Follow-up on Implementation (October 2008) by the Financial Stability Forum, the Task Force Report on the Subprime Crisis (May 2008, IOSCO). Domestically as well, the WG's efforts were included in the "Measures to enhance transparency and reliability of securitized financial products, and efforts to reinforce the function of secondary markets of securitized financial products" section of the "Measures to Support People's Daily Lives" (October 2008, Joint Meeting of the Government and the Ruling Parties Council on the New Economic Measures and the Ministerial Meeting on Economic Measures).

2. Purpose and Significance of the Self-Regulatory Rules for Securitized Products

The self-regulatory rules prescribe the following matters in line with their purpose (Article 1).

The purpose of the Regulations Concerning Distributions, etc. of Securitized Products (hereinafter referred to as the "Regulations") is to prescribe the establishment of procedures for the communication, etc. of information on the details and risks of the underlying assets, etc. of securitized products and other matters to be complied with when an Association Member engages in distributions, etc. of securitized products. In addition, the Regulations seek to ensure the traceability of securitized products by further enhancing and standardizing the information communicated to customers who are investors, and thereby contribute to the development of the sounder securitization market.

The self-regulatory rules stipulate that Association Members shall establish procedures to properly communicate information to their customers, who are investors, regarding details and risks (including risk not reflected in the credit rating) of the underlying assets, etc. (In addition to underlying assets, formulation schemes, etc.) of the securitized products that they distribute (or following the distribution of said securitized products). The purpose of the self-regulatory rules is to contribute to reviving the function of securitized products transactions based on the following two points and from the perspective of enhancing the transparency of securitized product transactions.

(i) Up to now, Association Members that have been distributors of securitized products have probably properly communicated information to their customers, who are investors, to contribute to their investment decision or risk management. However, by formulating these self-regulatory rules, the information communication from now on will be based on rules, and therefore, will be carried out in an even more organized and strict and standardized manner.

(ii) The WG produced a Standardized Information Reporting Package (hereinafter referred to as the "SIRP") to provide a common point of view for formalizing and standardizing the information on the details and risks of the underlying assets of securitized products. Among other benefits, use of the SIRP is expected to even out differences in the information to be communicated for individual transactions or between distributors and to make it easy for distributors or investors newly entering the securitization market to acquire information.

Distributors are not the originators of information on securitized products. However because they are expected to fulfill a major role in enhancing the transparency of securitized product transaction, the WG has discussed measures that Association Members can take to enhance the transparency of securitized product transactions in the limited capacity of distributors. As much as possible, these have been incorporated into the self-regulatory rules. In addition, the WG plans to recommend methods of dealing with products for which coverage under the self-regulatory rules is thought to be inappropriate in Q&A pamphlets and in the final report.

Chapter 2: Content of Discussions

1. The Scope of Targeted Securitized Products (Diagram 1)

(1) Securitized Products Targeted by the Self-regulatory Rules

Securitized products covered by the self-regulatory rules are defined as follows (Article 3, Item 1).

1 Securitized Product

Among the securities prescribed in Article 3, Item 1 of the Articles of Association, those that are issued based on the underlying cash flow stemming from specific assets (hereinafter referred to as the "underlying assets") for the main purpose of essentially transferring ownership of the said underlying assets, or those that are issued with reference to the risk of the said underlying assets for the main purpose of essentially transferring the risk of the said underlying assets; provided, however, that the following cases are excluded.

(i) Securitized products for which the location and details of specific risk (including the risk arising from the underlying assets of the said securitized product, the same hereinafter) are clear, and it is possible for investors to recognize such risk.

(ii) Securitized products that are distributed to the holders of the underlying assets or to the conduit at the origination stage (provided that the distributions to the conduit is not based on a request by the customer.)

(iii) Securitized products for which fund managers, etc. have investigated and analyzed the underlying assets of the targeted investment before making the investment and the fund managers, etc. are required under related laws and ordinances to report to customers on the investment in and investment management of the said securitized product.

(i) Regarding securitized products

(a) Output types of products categories

"The securities stipulated in Article 3, Item 1" of the Article of Association of the JSDA include the securities for company bonds and equities, etc., for which certificates have been issued, and the rights for electronic company bonds and equities, etc., for which certificates have not been issued (including, in both cases, such securities and rights that are already issued and traded on the secondary market).

In addition to the above, output types of product categories for securitized products include "beneficial interests of trusts (beneficial interests of trusts as stipulated in Article 2, Paragraph 2, Item 1 and 2 of Financial Instruments and Exchange Act; hereinafter referred to as the "FIEA);" "membership rights, partnership investments, and other rights stipulated by Article 2, Paragraph 2, items 3 to 7 of the FIEA;" and "asset backed loans (ABLs)." All of these securities fall outside the coverage of the self-regulatory rules of the JSDA and are not equivalent to the "securitized products" in the self-regulatory rules. Nevertheless, because the Supervision Guidelines contain cautionary notes regarding the distribution of beneficial interests of trusts, in the Miscellaneous Provisions (Article 8) of the self-regulatory rules, it has been stated that "it is desirable to treat beneficial interests of trusts in a manner equivalent to that for securities covered by the self-regulatory rules."

It is desirable that an Association Member treats beneficial interests of trusts as prescribed by Article 2, Paragraph 2, Items 1 and 2 of the FIEA that have the same features as securitized products in a manner equivalent to that provided for in the Regulations.

Furthermore, while ABLs are not covered by the FIEA, and consequently are not covered by the self-regulatory rules, they are quite often used as output types for the "securitized products" stipulated in Article 3, Item 1 based on having the same features as marketable securities stipulated in Article 3, Item 1 of the Articles of Association of the JSDA (covered by the self-regulatory rules) or beneficial interests of trusts. Therefore, recommendations on their handling are given at the end of this section in (4), taking into consideration "ensuring the traceability of underlying assets" irrespective of the categories of products being used as the securitized products.

(b) Liquidity-type products are the main target

The definition in Item 1 was made with so-called "liquidity-type products" principally in mind. These are products in which arrangers repackage the cash flows from underlying assets and credit default swaps (CDSs) and other instruments that reflect the credit risk of the underlying assets and distribute them to multiple investors. The definition does not encompass so-called "investment-type products, where funds collected from the multiple investors are invested and managed by fund managers and others in various types of assets and the cash flow received from these investments distributed to said investors[2]. Because fund managers research, analyze, disclose information on, and calculate values for their investments, these investment-type products are thought to fall "outside the domain set by the purpose of the self-regulatory rules, which is to ensure traceability by regulating distributors."

The WG thinks that so-called "managed-type CDOs" (CDOs structured so that collateral managers, etc., who are investment experts, can change the composition of the securities issues held in the portfolio, which represent the underlying assets, within the scope of predetermined guidelines) have different characteristics than so-called "funds" and therefore fall within the scope of the self-regulatory rules (are included in the definition given in item 1). "Managed-type CDOs" are different from "funds" in that substitution of assets is only possible within the predetermined guidelines; procedures are not in place whereby collateral managers, etc. explain the details and risk of the securities issues in the portfolio that are the underlying assets directly to investors; and are traded in such product categories as company bonds or notes or preferred shares.

(c) Structured bonds are not targeted

Foreign exchanged linked bonds and other so-called "structured bonds" are not generally recognized as "securitized products" and given the purpose of the self-regulatory rules are not included in the definition in Item 1.

(d) Public offerings and private placements are both targeted

The self-regulatory rules include as securitized products without distinction so-called "public offerings" for which disclosure is required under the FIEA and so-called "private placements" for which disclosure is not required. However, as stated in the following **2.-(2)-(iii)**, a measure has been put in place to prevent duplication of communicating by Association Members and legal disclosure.

(e) Primary and secondary securitized products are both targeted

The self-regulatory rules include as "securitized products" without distinction both "primary securitized products" and "secondary securitized products (or additionally packaged products)".

(f) Domestic and foreign products are both targeted

If Association Members distribute a product in Japan, the self-regulatory rules will include it as a "securitized product" without distinction as to whether it is a domestic or foreign product with regard to the "location of the underlying assets" or the "region where it was issued."

Since it will be important to have the cooperation of overseas authorities in ensuring the traceability of "securitized products that have their underlying assets located outside Japan and were also issued outside Japan," the WG will ask the FSA to "introduce the WG's final report to the Financial Stability Forum and other international forums and work to gain the collaboration of authorities in other countries regarding this issue."

(ii) Regarding Exception (i)

Exception (i) to the self-regulatory rules provides for omission from the scope of the self-regulatory rules for products for which clearly there is no problem with traceability even without regulating the distributors.

[2] In actual fact there are cases where it is difficult to clearly differentiate because some products have both of the features of "liquidity-type" and "investment-type", but here the explanation has been conceptually simplified. The intention is to as much as possible differentiate on a "real" basis rather than by types.

The "specific risk" is the risk arising from the formation of said securitized product. For example, the credit risk related to the underlying assets and the interest risk (risk associated with long-term fixed rates on underlying assets, etc.); risk of changes in cash flow, such as changes in prepayments or methods of repayment; and default risk, etc., arising from a mismatch of cash flows even if there has been no change in credit risk.

In specific terms, the following products fall under Exception (i).
- Company bonds which investment schemes depend only on the credit risk of specific companies (companies submitting Annual Securities Reports) and the information of the said company is easily obtainable, ex. products for which the underlying assets are the accounts receivable of specific companies (companies submitting Annual Securities Reports).
- ABCP with 100% credit enhancement by a bank.
- Specified company bonds that have the capital financing notes or subordinated loans to life insurance companies as their specific assets.
- Securitized products with a guarantee, etc. (limited to cases where the said securitized product is deemed to be the same as a product issued by the entity providing the guarantee, etc.[3])

(iii) Regarding Exception (ii)

Exception (ii) to the self-regulatory rules provides for omission from the scope of the self-regulatory rules, which seek to ensure traceability for customers who are investors by regulating distributors, for products where the counterparty to the distributor is not a customer who is an investor.

In specific terms, the following products fall under Exception (ii).
- The subordinated portion or preferred equity investments[4] held by the originator.
- Products held by a SPC[5] or trust as part of the series of steps at the formulation stage.

(iv) Regarding Exception (iii)

Exception (iii) covers so-called "investment-type" products where information on the details of the investment assets, etc., is communicated to customers through the fund managers or other people handling the investments. For that reason, a provision has been made to allow the omission of such products from coverage by the self-regulatory rules, which try to ensure traceability by regulating distributors. As indicated in (i), the "securitized products" in the self-regulatory rules have been defined with "liquidity type" products most in mind, but within those securitized products there are products that can not be clearly categorized as either with "liquidity type" or "investment-type" products (for example, among monetary trusts, there are products that collect funds from investors to purchase specific assets, and then convert said specific assets to liquidity type products). Exception (iii) has been inserted to clarify that products falling under it are outside the scope of the self-regulatory rules.

---

[3] Securitized products with guarantees, etc. that have repayment deadline change and other risks packaged in them cannot claim to have the "location and details of risk clearly defined" even if only credit risk is being guaranteed. This provision is for products with a scheme for which the guarantee is good even with regard for the timing of repayments as long as carried out according to the original agreement.

[4] Preferred equity investments held by originators include the preferred equity investments made by the real purchaser of real estate to a *Tokutei Mokuteki Kaisha* (TMK) for the purpose of acquiring the real estate through the TMK. In such a case, since the purchaser of said real estate is the investor in the real estate and the main establisher of the TMK, the purchaser is not deemed to be an "investor" under the self-regulatory rules (for said preferred equity investments, in other words securitized products) because as a prerequisite to the investment, it is usual for the purchaser to have sufficient information regarding said real estate. However, it is necessary to note that if said preferred equity investments are distributed to customers other than said purchaser of the real estate; those customers will be deemed "investors."

[5] When distributing to a SPC managed by an investor customer or to a vehicle of an independently managed specified money trust, etc., the product is one that "is distributed to a conduit by the request of the customer." Since it therefore does not qualify under Exception (ii), it is seen to fall within the scope of the self-regulatory rules. Such cases can be differentiated from the case in note 4 above in that the assets distributed to the vehicle are securitized products and the distribution is not of specific assets, such as real estate, etc.

More concretely, fund managers, etc. include the following types of people or entities.
- Entities that carry out an "Investment Management Business" as stipulated in Article 28, Paragraph 4 of the FIEA.
- Trustees as those for Designated Money Trust with Stipulated Investment Targets.
- Entities equivalent to the above two examples under the laws or ordinances of countries other than Japan.

Specifically, the following types of products fall under Exception (iii).
- Beneficiary securities of investment trusts.
- Investment securities and investment corporation bonds of Investment Corporation.
- Beneficiary securities of Designated Money Trust with Stipulated Investment Targets.
- Beneficiary securities of foreign investment trust (mutual funds).
- Foreign investment securities.

So-called hedge funds originated either in or outside Japan are considered to not be equivalent to securitized products and outside the scope of the self-regulatory rules. The rules do not apply because even if the managers of hedge funds are not required by law to communicate information to investors and do not qualify under Exception (iii), in practical terms, it is thought that hedge funds do not have characteristics equivalent to the definitions in Article 3, Item 1 of the self-regulatory rules.

On the other side, while it may look like securitized products purchased by pension and other funds on the advice of asset management companies fit the category of Exception (iii), the asset management company is only acting as an investor with regard to the securitized products, and it still is necessary to ensure traceability with regard to the said pension and other funds. In other words, in such a case, the securitized products do not qualify for the exception under Exception (iii) and are seen to fall within the scope of the self-regulatory rules.

(2) Scope of Securitized Products Targeted by SIRP

Of the securitized products targeted by the self-regulatory rules, the scope of those targeted by SIRP[6] is as follows.

The products targeted by SIRP are the commoditized securitized products of RMBS, narrowly defined ABS, CLO, and CMBS (all of which are debt-type primary securitized products).

(i) The above four types of products

On an individual product level, each of the above four types of products have a wide range of variations. Therefore, there is not necessarily any clear definition of each types of product. However, the typical products assumed for each category are securitized products backed by housing loans (principally guaranteed by the debtor's residential-use house) originated by banks or non-banks (so-called mortgage banks) for RMBS; lease-, credit-, and cash-loan backed securitized products for narrowly defined ABS; and securitized products backed by commercial-use real estate loans for CMBS. The type of securitized product assumed for CLO is one backed by corporate loans made by financial institutions, but so-called "managed-type" products can also fit in this category. Looking at the breakdown given in the JSDA's "Survey on Trends in Securitization Market," the above four types of products cover almost all of the securitized products formulated and issued using assets in Japan. In the "Survey on Trends in Securitization Market" done by the JSDA, of the total of ¥6.8 trillion securitized products issued in fiscal 2007, securitized products categorized in the above four types of products accounted for ¥6.7 trillion of that amount (however, the figures for product types used as output include beneficial interests of trusts and other vehicles considered to not be covered by the self-regulatory rules).

The SIRP only provides a common point of view on the information that distributors need to communicate based on assuming only typical transactions. Therefore, the SIRP does not necessarily have to be used in all cases of distributing the four types of products.

[6] The SIRP is the final version of the "Common Information Item List" given in the Interim Report, which was revised to reflect the opinions of originators and included further investigation by the WG from a practical implementation perspective.

(ii) Products other than the above four types

The WG has not created a SIRP for securitized products other than the above four types (primary securitized products, such as whole business securitizations; equity-based securitized products (preferred equity investments); secondary securitized products; securitized products backed by foreign assets; etc.) based on the decision that "at this point in time, it is impossible to provide a common approach to the information that distributors need to communicate based on assuming only typical transactions." Nevertheless, even when distributing securitized products other than the above four types, it is desirable that Association Members use the SIRP as a reference in regard to the information that the self-regulatory rules are requiring to be communicated, and consider what information to communicate taking into account the special features of the underlying assets, etc. Furthermore, if Association Members decide that it is appropriate to use the SIRP in some form, it may be used.

In the future, if it is decided by the "standing WG" mentioned later in this report that it is appropriate to create an SIRP for securitized products other than the above four types, the standing WG will consider doing so.

(Reference 1: Debt- and equity-based products)

The types of issuance of securitized products (meaning products commonly called securitized products) can be roughly divided into "debt-type" (bonds and notes, beneficiary interests of trusts, CP, loans) and "equity-type" (preferred equity investments, etc.)[7].

Looking at "equity-type" products, with preferred equity investments to TMK, most often the securitization of monetary claims is related to investments made by the originator of the product to cover the initial costs of the TMK, etc. In contrast, with securitization of real estate, most often the investors are making the investments. However, these real estate securitizations are typically done without getting a rating from a credit rating agency and in many cases formulated and distributed based on the assumption that the principal will be repaid at face value. Since the information necessary for investors to make an investment decision when purchasing said preferred equity investment certificates varies depending on the special features of the underlying assets and the capital debt structure of the product, it is thought that these products are not immediately adaptable to the stylization and standardization of information required to be communicated to investors using the SIRP.

(Reference 2: Primary and secondary securitized products)

Securitized products (meaning products commonly called securitized products) comprise primary and secondary products. Of these two types, because the underlying assets of secondary securitized products have a wide range of securitized products, the information necessary to make an investment decision varies, therefore it is thought that the secondary securitized products are not immediately adaptable to the stylization and standardization of information required to be communicated to investors using the SIRP.

Nevertheless, as previously mentioned, it is desirable that Association Members use the SIRP as a reference in considering what information to communicate taking into account the special features of the underlying assets, etc. Furthermore, if Association Members decide that it is appropriate to use the SIRP in some form, it may be used.

(3) Securitized Products Targeted by the Supervision Guidelines

As shown below, the securitized products targeted by the Supervision Guidelines are the products targeted by the self-regulatory rules (previously stated in (1)) plus beneficial interests of trusts.

Securitized products targeted by the Supervision Guidelines are the products targeted by the self-regulatory rules (the securities stipulated in Article 3, Item 1 of the JSDA Articles of Association) and beneficial interests of trusts that have the same properties as the securitized products targeted by the self-regulatory rules (beneficial interests of trusts stipulated by Article 2, Paragraph 2, items 1 and 2 of the FIEA).

(i) Treatment of beneficial interests of trusts

As previously mentioned, the self-regulatory rules state that when Association Members are distributing beneficial interests of trusts covered by the Supervision Guidelines, "It is desirable that Association Members treat them in a manner equivalent to that provided for in the self-regulatory rules."

[7] Products are being categorized only by the form of their issuance type. Within debt-type bonds or notes, beneficiary interests, and loans, there are products that are distributed to investors in a subordinated form, etc., giving them economically also an equity function.

(4) Asset Backed Loans (ABLs)

Since ABLs fall outside the scope of the FIEA, they are also not targeted by the Supervision Guidelines. Still, from the point of view of "ensuring traceability of underlying assets," regardless of what product structure they have as securitization output, the WG makes the following recommendation based on the idea that it would be appropriate to have fair, blanket-coverage rules.

(Recommendation)

Regardless of whether distributors are JSDA Members or not, when distributing asset backed loans (ABLs) with the same properties as securitized products as defined in the self-regulatory rules to other entities, it is desirable that the same type of procedures be established as provided for by the self-regulatory rules. However, this will not be required with regard to procedures for evaluation and calculation of theoretical prices.

2. Establishment of Internal Procedures for the Communication, etc., of Details and Risks of Underlying Assets

(1) Counterparties in Information Communicating

In the self-regulatory rules, the counterparties of the distributors when collecting and communicating on the details and risks of underlying assets, etc. are "customers," which are defined as follows (Article 3, Item 2).

2 Customers **The counterparty to which an Association Member is going to distribute securitized products and a person or entity that is already holding the securitized products distributed by the said Association Member.**

(i) Thinking of "Counterparties in Information Communicating"

In the self-regulatory rules, the "counterparties of communicating" are "investors" (Investors to which the distributor is going to distribute[8] securitized products and investors who are already holding the securitized product distributed by said distributor). Therefore, "investors" are called "customers" (Diagram 2). "Investors" are also thought to be equivalent to "customers" for SPCs that are managed by investors (customers) or independently managed specified money trusts.

(ii) Confidentiality agreements

In practical terms, a confidentiality agreement between the information provider and counterparty is a prerequisite to communicating on the details and risks of underlying assets, etc. of securitized products. For counterparties (investors = customers) in information communicating under the self-regulatory rules, there is no difference between having or not having a confidentiality agreement; investors who have concluded a confidentiality agreement and those who have not are both information communicating "counterparties" (The same holds in the Supervision Guidelines). The reason for this lack of distinction is that the self-regulatory rules are not seeking public disclosure. As stated in **(2) Basic Thinking of Communicating Information**, while it is possible that the confidentiality agreement will become the information communicating restriction, even under such restriction, the self-regulatory rules are based on the thinking that Association Members that are distributors must make as great as possible efforts to ensure traceability.

[8] The self-regulatory rules stipulate that "Distributions" are "Acts that an Association Member makes a customer acquire securitized products (excluding the acts falling under agency or intermediary)" (Article 3, Item 3). The "Distributions" include " sale and purchase of Securities" as stipulated by Article 2, Paragraph 8, Item 1 of the FIEA as well as " dealing in Public Offering or Secondary Distribution of Securities or dealing in Private Placement of Securities or Solicitation for Selling, etc. for Professional Investors" stipulated in Item 9 of the same Article and same paragraph.

(2) Basic Thinking of Communicating Information

The self-regulatory rules make the following provisions for the procedures for collecting and communicating on the details and risks of underlying assets, etc. to be carried out by Association Members that are distributors (Article 4).

An Association Member shall establish internal procedures that allow it to carry out properly and accurately the following duties in order to communicate the details and risks of underlying assets, etc. of the securitized products to customers based on sufficient consideration for ensuring the traceability of securitized products.

(1) Prior to distributions, the said Association Member shall consider the collection of the information on the details and risks of the underlying assets, etc. of securitized products judged to be necessary for the proper communication of information. Following that process, the said Association Member shall collect and analyze the information that it judged that it should collect with the exception of information that it can't collect (The analysis can be substituted with an analysis prepared by others, the same applies hereinafter).

(2) At the time of distributions, of the information collected and analyzed according to the preceding Item, the said Association Member shall communicate directly to customers the information that it judged that it should communicate to customers. Provided, however, that direct communication will not be necessary if a third party or another method is used to communicate the information to the customers or the customers can acquire the information on their own. It should be noted that the information to be communicated includes risk that is not reflected in the credit rating of the securitized product.

(3) After the distributions, if there is a request by a customer (limited to the customer who can be recognized to be holding the said securitized product, the same applies hereinafter) for information to be used in an investment decision or as a price evaluation reference, the said Association Member shall consider the collection of information enabling the customer to properly trace the information collected and analyzed according to Item 1 above. Then the said Association Member shall collect and if necessary analyze the information that it judged that it should collect or newly communicate to the customer with the exception of information that it can't collect. Following that procedure, the said Association Member shall communicate directly to the customer the information that it judged that it should communicate to the customer. Provided, however, that direct communication will not be necessary if a third party or another method is used to communicate the information to the customer or the customer can acquire the information on his own.

(4) Regarding the information which cannot be collected as prescribed in Item 1 and 3, or the information which the said Association Member did not judge necessary to communicate as prescribed in Item 2 and 3, if it judges that it shall communicate these reasons, it shall clearly communicate the reasons why it couldn't collect the information or why it didn't judge that it should communicate the information.

(i) "Association Member" and "distributions" (Article 4 overall)

In Article 4, the term "Association Member" includes cases where he is an arranger of said securitized products and cases where he is not an arranger. In addition, the term "distributions" include both primary and secondary distributions.

(ii) "Collecting and analyzing information prior to distributions" (Item 1)

Because many securitized product transactions are extremely individualistic, Item 1 doesn't stipulate "what type of information is appropriate for Association Members to communicate to investors who are customers regarding details and risks of the underlying assets, etc. of securitized products," but indicates that "Association Members must think about and decide on their own based on the special features of said securitized product and the category, etc. of said customers." Association Members may refer to the information items in the SIRP when they consider "the information that it judged that it should collect" (Including "the information that it judged that it should collect" in Item 3). But Association Members

need to pay attention to the necessity of investigating the related information taking into account the special features of the securitized product and the category, etc. of the customers because the SIRP is a common point of view regarding the securitized products that to a certain extent have set formats and are standardized.

Having completed above procedure, Association Members shall collect the information determined to be collected with the exception of information that cannot be collected and analyze it in order to be able to properly communicate the information to customers. The term "analyze" here does not only mean quantitative analysis but also includes qualitative analysis. In addition, "others" includes domestic or foreign group companies of Association Members and arrangers, etc. when Association Members are not the arrangers. In other words, the Association Member doesn't have to conduct the analysis itself, it is acceptable for the Association Member to collect information analyzed by a domestic or foreign group company of said Association Member. In addition, in cases where the Association Member is not the arranger but merely the distributor, it is acceptable for said Association Member to collect information from the arranger when the arranger has carried out an analysis.

(iii) "Communicating at the point of distributions" (Item 2)

Item 2 stipulates that at the point of distributions, Association Members shall communicate the information collected and analyzed under Item 1 to customers. The phrase "the information that it judged that it should communicate to customers" is used because among the "information collected and analyzed" by the Association Member, there is information that is not necessary for customers to judge the risk of the securitized product (For example, although among the "information collected for analysis," the "analysis results" are of course necessary for customers to judge the risk, but the said "information collected for analysis" is not really necessary), and there may be the case that the Association Member can't communicate the information that is necessary for customers to judge the risk of the securitized product to customers based on the disposition of originators or legal or contractual restrictions, etc.. In principle, Association Members must communicate the information they deem to be necessary for customers to judge risk from the "information collected and analyzed" in accordance with Item 1 excluding the information that can't be communicated.

However, Item 2 provides that based on the aim of ensuring that "information is communicated to customers (or customers already possess said information)," Association Members will not be required to communicate if a "third party" other than an Association Member (In the case where a servicer, trustee or information vendor has already communicated the information, said "servicer," "trustee" or "information vendor" or in the case that said Association Member is not the arranger, said "arranger, etc.", with new issues, including cases where the Association Member can confirm that a structure is in place that ensures the information will be correctly communicated at a predetermined point in the future) or another method (legal disclosure or its equivalent) is used to communicate the information to the customers or the customers can acquire the information on their own (such cases as where the customers can receive said information directly from originators based on existing transactions, etc. without the Association Member's support).

The phase "risk that is not reflected in the credit rating of the securitized product" indicates risk not inherent to said securitized product (For example, liquidity risk, price fluctuation risk). Of those risks, possible details to be communicated about liquidity risk are "basic nature of liquidity risk in accordance with the special features of individual products," "the existence or nonexistence of liquidity risk," and "the degree of liquidity risk (however, it doesn't intend always a quantitative indicator)."

(iv) "Collecting and communicating information after the distributions" (Item 3)

Item 3 stipulates that after the distributions, Association Members shall collect and analyze as necessary, and communicate the information.

Based on sufficient consideration for the practicality of not only distributors, but also various other participants in securitized product trading, such as issuers, trustees, and servicers, etc., being involved in communicating information to investors, item 3 has been included in the self-regulatory rules as the maximum activities that Association Members carry out as distributors.

The customer to whom the Association Member shall communicate the information is the customer to which said Association Member distributed the securitized product and which can be confirmed to be

holding said product. The information subject to collection and analysis and communication is "traced information collected and analyzed according to Item 1" and "information that it judged that it should newly communicate to the customer."

The phrase "the information that it judged that it should communicate to the customer" is used because among the "information collected and analyzed" by the Association Member, similar to Item 2, there may be the case that information is not necessary for customers to judge the risk of the securitized product, and that the Association Member can't communicate the information that is necessary for customers to customers based on the disposition of originators or legal or contractual restrictions, etc..

Moreover, similar to Item 2, the Association Member needs not communicate the information if a "third party" or "another method" is used to communicate the information to the customer or the customer can acquire the information on his own.

(v) "Communicating of the reasons why it couldn't collect the information or why it didn't judge that it should communicate the information (Item 4)

While the self-regulatory rules require that, for the purpose of ensuring traceability of securitized products, distributors establish procedures for properly collecting, analyzing, and communicating information, in many cases, the distributors are not the producers of the information, making it possible that there will be information that cannot be collected in practical terms. In addition, it is also possible that there will be information collected and if necessary analyzed by distributors that is clearly not necessary for customers to judge the risk of said securitized product or that cannot be communicated to customers based on the disposition, etc. of originators. Item 4 requires that when the Association Member decides that he shall communicate the reasons why it couldn't collect or why it didn't judge that it should communicate the information collected or analyzed, said Association Member shall clearly communicated the reasons to the customer.

The phrase "if it judges that it shall communicate these reasons" provides for the fact that, basically, securitized product transactions are made between professionals and most of the customers are institutional investors, hence the reasons why said Association Member couldn't collect or why it didn't judge that it should communicate the information collected or analyzed will be obvious to these customers in many cases. This phrase is meant to indicate that only when said Association Member judges that "the customer feels it is unnecessary to be explained the reasons why said Association Member couldn't collect or why it didn't judge that it should communicate, it is unnecessary to make said explanations. Conversely, with the exception of making this judgment, said Association Member shall endeavor to explain said reasons.

(vi) Examples of "the reasons why it couldn't collect" or "the reasons why it didn't judge that it should communicate"

The following are some of the possible reasons for Association Members that are distributors why they couldn't collect or why they didn't judge that they should communicate information.

- When the originator refuse to disclose the information (to Association Members or investors who are customers.)
- When an Association Member was just a distributor and not the arranger and the arranger didn't disclose the information (to Association Members or investors who were customers.) (Including cases where said arranger had exited the business of said securitized product, making information collection impossible.)
- When legal or contractual restrictions prevented collection of the information.
- An Association Member thought that the information collected and if necessary analyzed was not necessary for the customer to judge the risk of said securitized product.

(3) Establishment of Organizational Systems, etc.

The self-regulatory rules stipulate that distributors shall establish the following organizational systems (Article 5).

To establish the procedures prescribed in the preceding Article, an Association Member shall establish the necessary organizational systems and acquire staff.

(i) Level of establishment of organizational systems, etc.

Since the issue of "to what degree distributors should establish organizational systems and acquire staff" depends on the business model of the distributor and management decisions, there should be no uniform provision to deal with it. It is believed that Association Members that are distributors should establish organizational systems, etc., in line with actual conditions at each firm with reference to the following types of points.

(ii) Details and points regarding establishing organizational systems, etc.

Considering the details of establishing organizational systems, etc., when the Association Member is the arranger, it is desirable to establish a traceability verification system using a person other than the formulator knowledgeable about said product. Furthermore, even in the case that the Association Member is not the arranger and merely a distributor, the WG believes that a person knowledgeable about said securitized product should verify traceability from said arranger and others and establish a system for reporting to customers.

In other words, the following are examples of points regarding establishing organizational systems.
- Clarify the business sections responsible for formulation and distribution.
- Obtain participation of a person knowledgeable about securitized products to verify deals.
- Implement risk checks on securitized product by multiple people at points of formulation and distribution of said product.
- Use outside experts for risk analysis and the collection and communication of information.
- After distribution of the securitized product, form pipeline with originator to enable collection and communication of information to customers.

The WG (4th Meeting) received presentations regarding distributors establishing organizational systems, etc. from two major securities companies including examples and perspectives such as those in **Chapter 3 (Supplemental Discussions 1)**.

(4) Ensuring Accuracy of Information

The self-regulatory rules require that Association Members that are distributors seek to communicate information to customers who are investors. The WG has addressed issues regarding "how to ensure the accuracy of the information communicated by Association Members that are distributors" (even in the case that the distributor is not the arranger; this applies both to the point of distributions and post-distributions) as follows.

(i) The types of measures distributors should take to ensure the accuracy of information include, for example, "A warranty from the person concerned," "Due diligence regarding the originator," "Third party verification that information received is correctly reflected," and "Legal check by the arranger's council regarding the location, etc., of risk of the basic scheme and structure" (Regarding inspection of disclosure items for securitized products by a certified public accountant, please refer to **Chapter 3 (Supplemental Discussions 2)**. When the distributor is not the arranger, even if said distributor does not carry out these measures itself, the WG believes it to be sufficient that the distributor confirm the measures taken by the arranger, etc.

(ii) Although the distributor does its best to ensure the accuracy of the information, in practical terms, the distributor will have to rely on the information producers, such as the arranger, etc. Therefore, the important point for the distributor will be to clarify the source of the information and to make it clear that there has not been necessarily sufficient verification of the accuracy.

(5) Requirement of Cooperation from Originators

In the self-regulatory rules, it is necessary that originators which produce the information cooperate with Association Members for communicating the information that sufficiently ensures traceability, including the issue of information accuracy, to customers who are investors, because Association Members can't do it on their own.

Based on this point, the WG has made the following recommendation to the JSDA and government bodies supervising originators.

(Recommendation)

1. The JSDA should ask for the cooperation of industry bodies, etc., to which originators belong, in the provision of information sufficient to ensure traceability.
2. The FSA and other government bodies with jurisdiction over originators should request the cooperation of industry bodies, etc., to which originators belong, in the provision of information sufficient to ensure traceability.

(6) Use of the SIRP

The self-regulatory rules make the following provisions for the use of the SIRP by distributors to collect and communicate information on the details and risks of underlying assets, etc. as required (Article 6).

In communicating information in accordance with Article 4, an Association Member may use the separately prescribed Standardized Information Reporting Package (SIRP) as a reference if it judges that its use as a reference is appropriate.

(i) Basic thinking

As previously mentioned, many securitized product transactions are extremely individualistic. Because of this feature, the self-regulatory rules lay down no uniform rule regarding" what type of information is appropriate for Association Members to communicate to investors who are customers regarding details and risks of the underlying assets, etc. of securitized products." Instead, their basic principle is that "Association Members must think about and decide on their own based on the special features of said securitized product and the category, etc. of said customers."

On the other hand, using only this "each Association Member will think on a case-by-case basis" raises the issue of the lack of guidelines for Association Members to use in establishing procedures for providing information. To address that issue, the WG determined that, because of the relative commoditization of securitized products, if typical transactions were assumed, it was possible to provide a common point of view on "information provided by the information producer" and "information necessary to the information acquirer." In addition, the WG produced a SIRP for four types of products that account for a large proportion of the Japanese securitization market (RMBS, narrowly defined ABS, CLO, and CMBS). For the method, etc. used in producing the SIRP, please refer to **Chapter 3 (Supplemental Discussions 3)**.

If Association Members judge that use of the SIRP is appropriate, they may use the SIRP. In other words, as indicated in **(2) Basic Thinking of Communicating Information**, they collect and communicate information based on the information items of the SIRP. (Association Members collect and communicate the information items in the SIRP with the exception of items that they can't collect and communicate. In addition, among the information items in the SIRP, taking into account the special features of said securitized product and the category, etc. of customers, if there are items Association Members judge necessary to communicate, they may collect and communicate these items after eliminating items that cannot be collected or communicated).

The self-regulatory rules offer no special provisions regarding the concrete use of the SIRP (For example, giving the SIRP to customers as an independent document, or inserting some of the SIRP information items in another document and giving it to customers). Association Members are to choose the most appropriate method in accordance with the conditions for each transaction (Since the information provided by the SIRP is not necessarily listed on one section or in one format, it is desirable that Association Members submit to customers materials that indicate where the SIRP information items are listed). Furthermore, when distributing securitized products other than the above four types, an Association Member may use the SIRP as a reference if it judges that said SIRP's use as a reference is appropriate.

(ii) Information item levels

The SIRP information items are divided into 3 levels.
Level 1: Items considered almost essential in most cases
Level 2: Useful items that should be considered for reporting in most cases
Level 3: Useful information, but with lower priority than "Level 2"

The "Level" is an indication of the relative degree of priority for each information item assuming only the most standard of transactions. (There may be the case that the "Levels" of the same information items in four types of securitized products are different, because of the difference between their special features.) In actual transactions, Association Members are asked to use the "Level" as a reference in considering the special features of the products and the circumstances, etc.[9] of the customers who will use the information in examining the importance of individual information items.

(iii) Significance of introducing the SIRP

Under the self-regulatory rules, Association Members do not necessarily have to use the SIRP. They also do not have to collect and communicate all of the information items of the SIRP. Nevertheless, if use of the SIRP pervades the market, it should provide such benefits as closing the gap between individual transactions and distributors regarding information that should be communicated as well as facilitating the acquisition of information by distributors and investors newly entering the securitization market.

3. Establishment of Procedures for Evaluating, Calculating, and Communicating Theoretical Prices

(1) Basic Thinking

The Supervision Guidelines stipulate that "Ensuring that even when the market value of the product is difficult to ascertain, procedures exist so as to enable smooth provision of information on the theoretical price and valuation when requested. Further, procedures should exist so that the valuation process is not abused by the providers of information for a specific purpose that would benefit certain parties". In a WG meeting, an FSA representative gave the following explanation regarding these points.

- The Supervision Guidelines are asking distributors to establish procedures that are basically like the "evaluated or calculated market price" in the JSDA Guidelines ("Points for Securities companies to Consider in Providing Market Price Information", August 2000 (The guidelines for the provision of market prices of financial instruments by securities companies, hereinafter referred to as "JSDA guidelines")) and to not make arbitrary price valuation and calculations. For those reasons, no new content was put forward; rather attention was focused on supervision, particularly of securitized products, in lieu of the recent subprime loan problem.

Furthermore, the following was listed as "the FSA's Thinking" in the section on the relationship between the Supervisory Guidelines and the JSDA Guidelines in the "Outline of Comments on the Proposed Revisions of the Supervision Guidelines and FSA's Thinking on Comments" announced on April 2, 2008.

(FSA's Thinking)

> The intention of the stated "establishment of procedures" to provide price is to focus on the point of whether or not it is possible to meet the requests of clients for price provision and not to create an obligation to provide prices. Nor is it intended to overrule the provision in the JSDA Guidelines that "if the member decides that it would be difficult for it to make a rational evaluation or calculation of the market price, the member shall explain the situation to the client company and not provide the requested evaluated or calculated market price information."
>
> In the JSDA Guidelines, it is stipulated that members "will establish internal procedures to provide market price information to client companies in a timely manner." The provisions of our supervision guidelines are based on that rule.

(Reference 3: JSDA Guidelines)

According to the JSDA Guidelines, in "I. Basic Principles for Providing Market Price Information ~ 3.Establishing Procedures for Providing Market Prices~," JSDA members shall establish internal procedures for accurately providing market prices to client companies.

[9] For example, even if securitized products have the same underlying asset, there will be a significant difference in the scope and depth of information required for risk assessment by investors holding senior class notes with a subordination of 20% and a tranche size of 80% and by investors holding subordinated class notes with a subordination of 5% and a tranche size of 5%.

Moreover, "II. Remarks on Providing Market Price Information ~ 2.Remarks for Members to Watch When Providing Market Price Information~" states the following.

When providing market price information to client companies, Members shall not be arbitrary and shall be careful about the following points in endeavoring to collect or evaluate and calculate information in an objective and rational manner.

a) In providing market price information, Members shall determine beforehand internal procedures regarding the method, etc., of providing said information to client companies.

b) Members shall disclose beforehand whether the market price information is evaluated or calculated market price or publicly announced market price when providing market price information.

c) For publicly announced market price information, the client companies shall, in principle, get the information themselves using the provided method of accessing the public materials. Should the Member get the information for the client companies, the Member shall provide details of the source of the information, such as the media or location it was taken from, when providing the publicly announced market price information to client companies.

d) For market price information that has been derived by evaluation or calculation, a Member shall use methods set out in the Practical Guidelines to evaluate or calculate market price. Moreover, in order to avoid being arbitrary and to contribute to a fair evaluation or calculation of market price, the Member should observe the following points.

(i) Even when requested by a client company to provide an evaluation or calculation of market price, if the Member receiving the request decides that it would be difficult for it to make a rational evaluation or calculation of the market price, the Member shall explain the situation to the client company and not provide the requested evaluated or calculated market price information.

(ii) With the exception of the case of refining an evaluation, a Member shall not tamper with its method of evaluation or calculation if so requested by the client company.

(iii) When providing market price information based on an evaluation or calculation, a Member shall clearly indicate the type of evaluated or calculated market price (median rate, exit price, etc.) and provide the information using the following method.

(The WG's Basic Thinking)

Based on the previously mentioned thinking of the FSA, the WG decided to continue to appropriately deal with the "Establishment of procedures for evaluating, calculating, and communicating theoretical prices" requested under the Supervision Guidelines using the current JSDA Guidelines. In addition, to clearly position the JSDA Guidelines in this respect, the WG has not included any provisions on this issue in the self-regulatory rules and has included practical business-based explanations regarding the differences in expressions used in the Supervision Guidelines and the JSDA Guidelines in the Q&A and in the final report.

(2) Explanations of Differences in Expressions

The following types of differences in expression exist between the Supervision Guidelines and the JSDA Guidelines.

Supervision Guidelines	JSDA Guidelines
Financial instrument businesses, etc.	Securities firms, Members
Theoretical price	Evaluated or calculated market price

(i) Differences between "Financial instrument businesses, etc." and "Securities firms" and "Members"

Within "Financial instrument businesses, etc.," the self-regulatory rules target the "Association Members" of the JSDA. In the JSDA Guidelines, the terms "Securities firms" and "Members" can be interpreted as both meaning "Association Members."

(ii) Differences between "Theoretical price" and "Evaluated or calculated market price"

In the Practical Guidelines for Accounting for Financial Instruments, the price to be assigned a financial asset is, in the case of said financial asset being traded on a market and having an executed transaction

price in that market, a "market-based price." In the case that there is no market price for the financial asset, a "rationally calculated price" is used (Paragraph 47)[10].

Furthermore, the Practical Guidelines for Accounting for Financial Instruments indicates the following types of price calculation methods for a "rationally calculated price" (Paragraph 54).

(1) Adjusting the market price of a similar financial asset announced by an exchange, etc. for interest yield, maturity date, credit risk, and other variables (In this case, the adjusted value, etc., must be a rational one that is not arbitrary).

(2) Calculating the present value of the targeted financial asset by discounting the expected future cash flows (In this case, factoring in the variable factors, etc., should be considered. In addition, the applied discount rate must be a rational one that is not arbitrary).

(3) Using a general theoretical value model or pricing model that is widely used (For example, the Black-Scholes model or binomial models, etc., and other option pricing models) (In this case, the model itself and the values applied in the actual calculations used in the model, such as volatility and interest yield, etc., must be rational ones that are not arbitrary).

The intent of the Supervision Guidelines is to get Financial Instruments Business Operators, etc. that are distributors to set up procedures for calculating prices in a rational manner or evaluating a calculated price in a rational manner and being able to communicate these prices to customers even when it is difficult to specify a market price. In other words, the "theoretical price" stated in the Supervision Guidelines can be interpreted as the "market price" when it is difficult to specify a market price.

Therefore, it is through that Association Members can establish procedures to enable the communication of "theoretical prices when it is difficult to specify a market price" as required under the Supervision Guidelines by setting up procedures to enable the communication of theoretical prices, etc. of securitized products in accordance with the provisions for "evaluated or calculated market price" in the JSDA Guidelines.

JSDA Guideline expression	Interpretation of JSDA Guideline expression
Securities firms, Members	Association Members
Evaluated or calculated market price	When there is a market price →"Market price" When it is difficult to specify a market price →"Theoretical price"

4. Miscellaneous Provisions

(1) Treatment of Beneficial interests of Trusts

As indicated in "1.-(1)-(i)" of this report, from the point of view of fairness and the further sound development of the securitization market, when the form of output of the securitized product being distributed by Association Members is beneficial interests of trusts, the self-regulatory rules state that "it is desirable to treat beneficiary interests of trusts in a manner equivalent to that provided for in the Regulations (Article 8)."

(2) Treatment of Agency or Intermediary Actions

The self-regulatory rules make the following provision for distributions of securitized products by Association Members, not only for distribution, but also for agency and intermediary actions (Article 9).

Even if an Association Member does not distribute securitized products, but only act as an agency or an intermediary, it is desirable that treatment of the products be equivalent to the items provided under Chapter II.

[10] In view of international trends, the Accounting Standards Board of Japan (ASBJ) released a Q&A on calculation methods on October 28, 2008. In that document, ASBJ clearly indicated that it was appropriate to use a rationally calculated theoretical price rather than an extreme market price when the amount of actual trading was extremely small or there was a notably large gap between bid and ask prices.

These provision are in accordance with the stipulation under the Supervision Guidelines that "Further, even when a securities company is only involved in an intermediary role, so long as they communicate with investors, it is recommended that they cooperate with investors so far as practically possible." (IV-3-1-2- (5)). Under the self-regulatory rules, "intermediary for sale and purchase" means "intermediary for sale and purchase of Securities" as stipulated by Article 2, Paragraph 8, Item 2 of the FIEA (excluding the "dealing in Public Offering or Secondary Distribution of Securities or dealing in Private Placement of Securities or Solicitation for Selling, etc. for Professional Investors" stipulated in Item 9 of the same paragraph).

5. Post-Enforcement Revisions of the Self-Regulatory Rules

The self-regulatory rules will be revised as necessary in accordance with changes in financial and economic conditions following their enforcement. In particular with the SIRP, while the information items necessary to ensure the traceability of the details and risks of the underlying assets that Association Members that are distributors need to collect and communicate have been aligned with current conditions, the WG believes those items will need to be periodically reviewed to check whether they remain appropriate.

The WG makes the following recommendations.

(Recommendation)

1. A "Working Group on Securitized Products" (provisional name) should be established under the Financial Instruments Committee of the JSDA (made a standing committee).
2. For the time being, following the enforcement of the self-regulatory rules, said WG will meet on a quarterly basis, to consider opinions and questions, etc. submitted by Association Members through the JSDA. In addition, said WG will examine matters concerning the information items of the SIRP.
3. At least once a year, said WG will conduct a review of the self-regulatory rules (including the information items of the SIRP). If said WG judges that revision is necessary, it will begin investigating such a revision.

Chapter 3: Supplemental Discussions

(Supplemental Discussion 1)
An Example and Perspectives Regarding Distributors Establishing Organizational Systems, etc. by Major Securities Companies

Since the issue of "to what degree distributors should establish organizational systems and acquire staff" depends on the business model of the distributor and management decisions, the self-regulatory rules has not gone into specifics concerning this issue. However, in the WG meeting presentations were made by two major securities companies containing the following case and ways of thinking ((1) and (2)) on this issue.

(1) Example and Perspective 1

- The main points that we follow in our business operations from the perspective of ensuring traceability are ensuring independence, clarifying job responsibility, and making sure checks and balances are in place. To that effect, our systems remove the possibility of intentional manipulation of information and avoid and manage conflicts of interest.
- Keeping the origination and distribution of CMBS in mind, when securities companies use assets bought on proprietary accounts as the underlying assets in securitized products, they not only have to fulfill their responsibility as a market intermediate, but also as a so-called arranger responsibility by considering whether or not the transaction will damage their reputation with investors. First, the transactions undergo a strict credit analysis upon extending the loan on its own position. At this point, some proposed transactions are dropped because of credit problems in holding the loans as its proprietary positions, but the inspection does not just stop at this kind of risk management, it goes on to consider the product from the point of view of whether the execution of loans is appropriate

considering the securitization process. In other words, it looks at the product from the point of view of risk management by the investor. In addition, at the creation and distribution stages, we provide proper disclosure and detailed explanations to investors regarding the details of the underlying assets and the securitized product structure. The important thing at this point is avoiding conflicts of interest. It is important to have a system that ensures the fairness of the process. At our company, the collection and close scrutiny of information is done by departments that have a certain degree of independence from the distribution promotion sections. At the disclosure stage as well, to prevent the information from being intentionally manipulated to the detriment of the investors' interests, the legal and compliance departments are included in the process along with the distribution promotion sections to effect checks and balances.

- We recognize that the concept of arranger responsibility has— whether greater small—a certain degree of similarity with underwriter responsibility, which has mainly been discussed concerning equities. In actual fact, in the June 2006 report of the discussion points by the Round Table Conference on the Financial Market Intermediation Function of Securities Companies, it was pointed out that "in this way, against the backdrop of the growing diversification and sophistication of the businesses of securities companies as market players, the business of securities companies…III) securities companies (group companies) create securitized products using underlying assets in which they made the principal investment and sell them to other investors with out proper explanation (risk transfer), and IV) in an environment where cases that pose (potential) conflict of interest, etc. problems are increasing, such as using SPCs and other vehicles for the purposes of manipulating accounting, proposing or trying securitization structures suspected of being for the purpose of tax evasion, and other cases." Based on this, as a securities firm that creates and distributes securitized products, we have built and operate an internal control system capable of ensuring the protection of the public interest and investors.
- Of course, there is no need to introduce the notion of underwriter responsibility exactly "as is" into the business of the origination and distribution of securitized products. However, considering the social responsibility of securities companies that distribute securitized products to a wide range of investors, we think the concept of underwriter responsibility, which has been well debated and tabulated in the equities markets, should be taken into account in the "Establishing procedures" given the similarities, great or small.

(2) Perspective 2

- In establishing procedures, in addition to the organizational aspect of establishing an inappropriate organization and the allocation of people, it is important to ensure their effectiveness (Diagram of Supplemental Discussion 1).
- Procedures have to be revised even after they have been implemented to respond to changes in the market environment, in addition to responding to the risk that a procedure can lose substance in course of time.
- Points (potential risks) to be considered when thinking about establishing procedures to create and distribute securitized products include 1) because expertise is required, it is not always easy to implement checks by third parties, 2) because the products often use complicated risk structures, it is not always easy to determine the risk, 3) because of the use of SPVs and other vehicles, the originator or arranger is not the direct counterparty, 4) a lot of different entities are involved, 5) even distribution of the product require expertise, and 6) even after distribution, it is essential to provide information disclosure and market prices. Even in the past, securities companies have been careful when it comes to establishing procedures to deal with these types of special features and risks of securitized products. Specifically, when creating these products they use checklists to visualize the details and processes of the proposed deal; set up systems organizationally, such as establishing departments specializing in inspection; increase the effectiveness of checks by allocating the job to people with experience creating securitized products; or keep a proper record of the inspection paper trail. In addition, detailed responses are also offered at the point of distribution, such as bringing along a securitized product specialist team to explain in detail the risks to investors, providing follow-up services after distribution by supplying information on the performance of the underlying assets, and developing products that incorporate the needs of investors.

- To make further improvements in the procedures for creating and selling distributing products, this WG should not be satisfied with the current procedures. For example, we would like to propose the following. Improve the risk analysis inspection function in the procedure used to monitor product development. Improve the inspection function for the supply of information and market prices after distribution. In addition, raise the bar on the in-house inspection function at securities companies. We believe these are the steps that should be taken to improve transparency of securitized products and information disclosure.

(3) Underwriting Examination

While underwriting examination is not directly targeted by the self-regulatory rules, in relation to establishing distribution procedure, a major securities company posed the following issues to the WG.

- On the day following the public release of the WG's interim report, the Securities and Exchange Surveillance Commission (SESC) announced its Basic Inspection Policy and Inspection Program for the Business Year 2008." In the document, the SESC stated that "The recent subprime loan crisis has revealed the global extent of focuses of the securitized instruments market and its attendant risk management issues. One of the SESC inspection will thus be on the securitization process, namely underwriting examination, risk management, sales management and other related control systems of financial instruments firms that arrange, underwrite, and market such securitized instruments".
- Since this WG's focus is only on "distribution" and this area is covered by the separate self-regulatory rules of the JSDA "Regulations Concerning Underwriting, etc. of Marketable Securities," the WG has not undertaken any discussions on underwriting examination because it is not being directly targeted. Based on discussions in the WG, it has been determined that setting up procedures to ensure traceability is something that financial instrument businesses involved with the (formation, underwriting, and) distribution of securitized products should do. However, looking at the indications made by the SESC, the WG would like to raise the issue that the establishment of procedures for underwriting examination of securitized products is an important matter.
- Moreover, because the form of the issue of securitized products has been not "equity" but "bonds or notes," the focus of each company in securitization product underwriting examination has been on the so-called "disclosure examination" that places importance on checking for compliance with the disclosure requirement under the Financial Instruments and Exchange Act (FIEA). Nevertheless, if we take a lesson from what the SESC is looking at, perhaps we need to raise the bar not only on the establishment of procedures to ensure the traceability of securitized products as we have been discussing up to this point, but also the procedures for carrying out underwriting examination.
- In its recommendations made on February 2007, the SESC indicated the following position on underwriting examination.

Securities companies underwriting initial or secondary distributions of equity, etc. are expected to ensure that investors are in a position to make a proper investment decision about said initial or secondary distributions and to play a role in preventing investors from incurring unforeseen damages by conducting strict inspections of the financial position of the issuer, business performance, performance forecasts, etc. Consequently, it is necessary to create appropriate mechanisms to ensure that securities companies conduct this type of correct and adequate underwriting examination.

- As mentioned previously, the WG is not dealing directly with underwriting examination, but as part of each company establishing procedures to ensure the traceability of securitized products, the WG believes that based on the business situation of each company, they may

need to voluntarily establish procedures for underwriting examination, and would like to remind Association Members of this.

It is possible that establishing procedures for underwriting examination of primary transactions of securitized products would require separate considerations. However, in that case for example, the WG thinks that it would be meaningful to use the items of the SIRP as reference.

(Supplemental Discussion 2)
Inspection of Disclosure Items for Securitized Products by a Certified Public Accountant

The WG received the following explanation of the disclosure items inspected by certified public accountants (CPA) regarding securitized products.

- Looking at the disclosure items audited by CPAs, on the surface the items related to securitized products can be broadly divided into 1) checks of external vouchers and disclosure items and 2) checks of information creation processes. Out of the two, 1) is relatively easy to do, while 2) it is difficult because the reliability of the internal documentation cannot be ensured.
- The types of audits done by CPAs in inspecting these disclosure items can be broadly divided into 3 types 1) reviewing the accuracy of disclosure documentation, 2) following Agreed Upon Procedures related to the accuracy of disclosure documentation, and 3) auditing the establishment and operation of the internal control system related to the process of producing the information for disclosure documentation (SAS 70 administration, auditing of internal control systems based on Auditing Standards Committee Statement No. 18).
- In 1), a specific standard is applied to determine where there are any matters that could be considered inappropriate in the information disclosure based on applying a specific standard, and communicating them (limited guarantee). Although this method has the advantage of receiving an opinion on the accuracy of the disclosure documentation by the auditor, it has the disadvantages of requiring the setting of implementation standards appropriate for information disclosure of securitized products and generally higher costs than Agreed Upon Procedures (AUP). Because of this, this method is almost not used at all.
- For 2), the auditors implement procedures agreed upon with the client business, and report on the results. The audit report is only on the AUP and the CPAs do not make any conclusions. The company requesting the procedure takes responsibility for deriving any conclusions from the implemented procedure and results. In addition to the setting of a standard, the advantage here is generally lower costs compared with a review. The disadvantages are the auditor gives no opinion on the accuracy of the disclosure documentation and the report is not made widely available for public inspection because it is reported only to the client.
- In 3), the CPA audits the structure and operation of the internal control system and makes a report. Employees preparing the disclosure information prepare a written statement on the structure of the internal control system on which the audit is then based. The advantage here is that the auditors give an opinion on the structure of the internal control system. The disadvantages are employees preparing disclosure information must prepare a statement on the structure and operation of information creation processes under the internal control system and the cost is generally higher than either a review or AUP inspection.

(Supplemental Discussion 3)
Method, etc. Used in Producing the SIRP

(1) Preparation method

The SIRP has created using the model format by the Workshop on Securitization as a base for RMBS, ABS, and CLO products, and make the necessary revisions. For CMBS, the SIRP is based on the

Investor Reporting Package (IRP) produced by CMSA-Japan[11] based on discussions with multiple stakeholders. The WG would like to express its thanks to the Japan office of the CMSA for their cooperation.

As a step in the process of creating the SIRP, the Common Information Item List prepared and reported in the interim report was positioned at that stage as "a working draft[12]" that listed up items with an emphasis on the information necessary for investors to do their own risk analysis. Starting in the fall, the WG reflected the opinions of originators[13], which are the providers of information, into the Common Information Item List, and continued its examination and review from the point of view of actual distribution conditions, with the final product becoming the SIRP.

(2) Information by investors to do risk/return analysis

Before beginning the activities of the initiative team, the WG received the following explanation by securitization analysts of the information investors need to make their own the risk/return analysis.

(i) Necessary information regarding securitization of monetary claims

- As necessary information for credit risk analysis when investing, the "Level 1" and "Level 2" items in "1.Disclosure at point of issuance" in the Workshop on Securitization's model format are extremely important. There are almost no items that can be omitted.
- Based on the fact that most RMBS in Japan have fixed interest rate coupons, information in "1.Disclosure at point of issuance" in the model format does not necessarily cover sufficiently the necessary information for making interest risk analysis when investing.
- The necessary information for making investment return analysis when investing is covered to a certain degree by "1.Disclosure at point of issuance" in the model format (expected cash flow included prepayments is not covered). In addition, there is a lack of information about multiple existing issues of the same type that could be used for comparison.
- As necessary information for monitoring credit risk after an investment, the "Level 1" information in "2. Disclosure following issuance" is extremely important. On the other hand, there is room for paring down items in "Level 2."
- Because it is possible that the necessary information could change depending on changes in market conditions, etc., there should be some flexibility to enable revisions in the format.
- The necessary information for monitoring interest rate risk and calculating return is market price.

(ii) Necessary information regarding securitization of real estate

- In the U.S. and Europe, CMBS transactions are typically backed by about 100 properties. In this case, investors do not necessarily look at the details of each property. Among the ways at look at the investment is checking the main properties only based on the degree of diversification. Ratings are also being used in conjunction with the information provided by originators and others to make the investment decisions. This, of course, is based on receiving information from the rating agency on what information was used in making the rating and what were the assumptions used. Taking these

---

[11] The SIRP for CMBS is not exactly the same as the CMSA's IRP, but was created as a document that is consistent with the form of the CMSA's IRP (In future, when the JSDA periodically reviews the SIRP, it will do so in collaboration with CMSA). Since the content of the SIRP is decided on only by the JSDA, information items of the CMSA's IRP that the JSDA determines are inappropriate to include in the SIRP and be covered by the self-regulatory rules will not included in the SIRP. Conversely, JSDA may decide to include some information items in the SIRP that are not in the CMSA's IRP. At the point, the information items in the SIRP are the same as those in the CMSA's IRP.

[12] A Unified Information Disclosure Format Initiative Team (hereinafter referred to as the "Initiative Team"), comprising 11 members including investors, originators, distributors, rating agencies, and others (Actually, two observers also participated) was commissioned by the WG to produce the working draft. The initiative team leader made their report on the working draft to the WG at the 6th meeting.

[13] The WG surveyed originators about the Common Information Item List, etc. (Survey period: September 1 to 16, 2008; Number of respondents: 43 companies (RMBS, 20 companies; narrowly defined ABS, 15 companies; CLO, 16 companies; CMBS, 7 companies)).

views into consideration, the minimum information items necessary when putting a deal together are as follows (in the case of multiple property issues, in addition to these points it is necessary to look at the effectiveness of the overall portfolio and what type of special characteristics it might have).

[Individual property (underlying assets) level]

Basic information: property name, property type, location, construction date, total floor space, rented area, land area, number of floors, property manager, ownership type (ownership, leasehold, etc.), PML, etc.

Performance: occupancy rate, grows revenues, NOI, NCF, etc.

[Loan level]

Basic information: borrower, loan date, maturity date, balance (original, current), principal repayment method, interest rates and payments, collateral, LTV etc.

Performance: DSCR (historical figures, trigger figures) and the existence of other trigger conditions and, etc.

Reserves: types of reserves and balances, etc.

[Bond and beneficiary right level]

Basic information: structure (capital structures, method of principal repayment <timing and amount>, existence of swaps, definition on event of default, various contract items <rights of each class, transfer restrictions, etc.>, existence of other trigger conditions, cash flow (WAL, final payment date, payment window), etc.

[Rating information]

Rating agency's credit risk assessment of each process

• The information items necessary during the life of the product are related to the cash flow of the property and to how the asset pool of the portfolio is changing. Specifics are as shown below.

[Individual property (underlying assets) level]

Basic information: property name, property type, location, construction date, total floor space, rented area, land area, number of floors, property manager, ownership type (ownership, leasehold, etc.), allocated loan amount, PML, etc.

Performance: occupancy rate (cut off date, current figure), grows revenues, NOI, NCF, etc.

Sale of property: basic information on property (as shown above), sales price of property

Acquisition of substitute payment property: basic information (as shown above), performance, etc (as shown above)

[Loan level]

Basic information: borrower, loan date, maturity date, balance (original, current), principal repayment method, interest rates and payments, etc.

Performance: DSCR (historical figures, trigger figures) etc.

Special conditions: trigger breaches, property sales (property name, release value), changes in conditions, major changes in performance, others (fire damage, etc.) etc.

Overdue conditions: days in delayed payment, principal amount of delayed payment, interest rate, delayed payment penalty, etc.

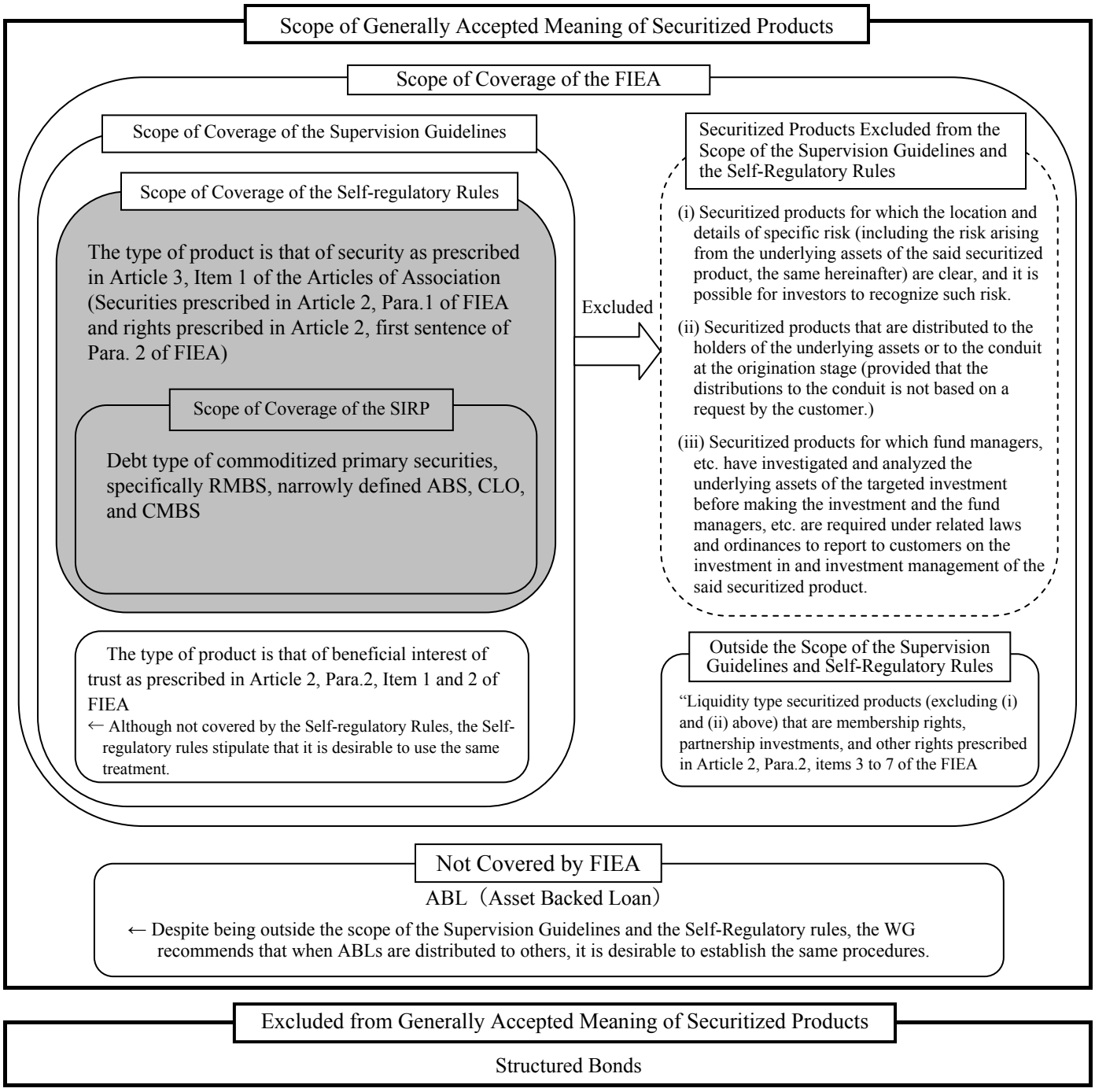
Reserves: types of reserves and balances, etc.

Servicer advances: amounts and breakdown, etc.

[Bond and beneficiary right level]

Basic information: balances, payment schedules, credit support, etc.

(Diagram 1) Image of Scope of Targeted Securitized Products



(Diagram 2) Counterparties in Information Communicating

"Investor" （="Customer"）	"Investor to which said distributor are going to distribute securitized products" "Investor that is already holding the securitized products distributed by said distributor"

(Diagram of Supplemental Discussion 1)

(End of document)