Moody's SF Japan K.K. (Moody's):

Matters Relating to Ratings Assignment Policy, etc. Prescribed under Article 299, Item 36 (a) of the Cabinet Office Ordinance with Respect to Financial Instruments Business, Etc.

I. CLASSIFICATION OF MATTER SUBJECT TO CREDIT RATING

Classifications of matters subject to credit rating are as follows:

a. Products related to creditworthiness of issuers

b. Structured finance products

  i. ABS

  ii. CMBS

  iii. RMBS

  iv. CDO

  v. Other structured finance products

2. ASSUMPTIONS WHICH THE ASSESSMENT OF CREDIT STANDING WILL BE BASED ON

Sections (1) to (12) below are applicable to all of the above classification.

(1) Global Rating Scales

Ratings assigned on Moody's global long-term and short-term rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities. Mood y's defines credit risk as the risk that an entity ma y not meet its contractual financial obligations as they come due and any estimated financial loss in the event of default or impairment. The contractual financial obligations[1] addressed by Moody's ratings are those that call for, without regard to enforceability, the payment of an ascertainable amount, which may vary based upon standard sources of variation (e.g., floating interest rates), by an ascertainable date. Moody's rating addresses the issuer's ability to obtain cash sufficient to service the obligation, and its willingness to pay[2]. Moody's ratings do not address non-standard sources of variation in the amount of the principal obligation (e.g., equity indexed), absent an express statement to the contrary in a press release accompanying an initial rating[3]. Long-term ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both on the likelihood of a default or impairment on contractual financial obligations and the expected financial loss suffered in the event of default or impairment[4]. Short-term ratings are assigned to obligations with an original maturity of thirteen months or less and reflect both on the likelihood of a default or impairment on contractual financial obligations and the expected financial loss suffered in the event of default or impairment[5]. Moody's issues ratings at the issuer level and instrument level on both the long-term scale and the short-term scale. Typically, ratings are made publicly available although private and unpublished ratings may also be assigned[6].

Moody's differentiates structured finance ratings from fundamental ratings (i.e., ratings on nonfinancial corporate, financial institution, and public sector entities) on the global long-term scale by adding (sf) to all structured finance ratings[7]. The addition of (sf) to structured finance ratings should eliminate any presumption that such ratings and fundamental ratings at the same letter grade level will behave the same. The (sf) indicator for structured finance security ratings indicates that otherwise similarly rated structured finance and fundamental securities may have different risk characteristics. Through its current methodologies, however,

1 In the case of impairments, there can be a financial loss even when contractual obligations are met. See the definition of Impairment in this publication.

2 For issuer level ratings, see the definition of Issuer Ratings in this publication. In some cases the relevant credit risk relates to a third party, in addition to, or instead of the issuer. Examples include credit-linked notes and guaranteed obligations.

3 Because the number of possible features or structures is limited only by the creativity of issuers, Mood y's cannot comprehensively catalogue all the types of non -standard variation affecting financial obligations, but examples include indexed values, equity values and cash flows, prepayment penalties, and an obligation to pay an amount that is not ascertainable at the inception of the transaction.

4 For certain structured finance, preferred stock and hybrid securities in which payment default events are either not defined or do not match investors' expectations for timely payment, the ratings reflect the likelihood of impairment (as defined below in this publication) and the expected financial loss in the event of impairment.

5 Supranational institutions and central banks that hold sovereign debt or extend sovereign loans, such as central banks, the IMF, or the European Central Bank, may not always be treated similarly to private investors and private lenders with similar credit exposures. Long-term and short-term ratings assigned to obligations held by both private investors and public sector institutions reflect only the credit risks faced by private investors unless specifically noted otherwise.

6 See Moody's Investors Service Products for guidance on how you can obtain ratings including private ratings and/or unpublished ratings from MIS.

7 Certain ratings may have (sf) indicators in Moody's data base, but do not fall under the definition of structured finance products under Japanese regulations. (e.g., fully-supported ABCPs.) Status of these ratings will be explicitly disclosed.
Like other global scale ratings, (sf) ratings reflect both the likelihood of a default and the expected loss suffered in the event of default. Ratings are assigned based on a rating committee's assessment of a security's expected loss rate (default probability multiplied by expected loss severity), and may be subject to the constraint that the final expected loss rating assigned would not be more than a certain number of notches, typically three to five notches, above the rating that would be assigned based on an assessment of default probability alone. The magnitude of this constraint may vary with the level of the rating, the seasoning of the transaction, and the uncertainty around the assessments of expected loss and probability of default.

Moody's aspire to achieve broad expected equivalence in structured finance and fundamental rating performance when measured over a long period of time.

(2) Obligations and Issuers Rated on the Global Long-Term and Short-Term Rating Scales

Below are the obligations and issuers rated on the global long-term and short-term rating scales. Each of their definitions is stated in Section 3.A. and Section 3.B.

» Long-Term and Short-Term Obligation Ratings

» Structured Finance Counterparty Ratings

» Structured Finance Counterparty Instrument Ratings

» Credit Default Swaps Ratings

(3) Rating Outlooks

A Moody's rating outlook is an opinion regarding the likely rating direction over the medium term. Rating outlooks fall into four categories: Positive (POS), Negative (NEG), Stable (STA), and Developing (DEV). Outlooks may be assigned at the issuer level or at the rating level. Where there is an outlook at the issuer level and the issuer has multiple ratings with differing outlooks, an "(m)" modifier to indicate multiple will be displayed and Moody's press releases will describe and provide the rationale for these differences. A designation of RUR (Rating(s) Under Review) indicates that an issuer has one or more ratings under review, which overrides the outlook designation. A designation of RWR (Rating(s) Withdrawn) indicates that an issuer has no active ratings to which an outlook is applicable. Rating outlooks are not assigned to all rated entities. In some cases, this will be indicated by the display NOO (No Outlook).

A stable outlook indicates a low likelihood of a rating change over the medium term. A negative, positive or developing outlook indicates a higher likelihood of a rating change over the medium term. A rating committee that assigns an outlook of stable, negative, positive, or developing to an issuer's rating is also indicating its belief that the issuer's credit profile is consistent with the relevant rating level at that point in time.

The time between the assignment of a new rating outlook and a subsequent rating action has historically varied widely, depending upon the pace of new credit developments which materially affect the issuer's credit profile. On average, after the initial assignment of a positive or negative rating outlook, the next rating action – either a change in outlook, a rating review, or a change in rating – has followed within about a year, but outlooks have also remained in place for much shorter and much longer periods of time. Historically, approximately one-third of issuers have been downgraded (upgraded) within 18 months of the assignment of a negative (positive) rating outlook. After the initial assignment of a stable outlook, about 90% of ratings experience no change in rating during the following year[8].

(4) Rating Reviews

A review indicates that a rating is under consideration for a change in the near term[9]. A rating can be placed on review for upgrade, downgrade, or more rarely with direction uncertain. A review may end with a rating being upgraded, downgraded, or confirmed without a change to the rating. Ratings on review are said to be on Moody's "Watchlist" or "On Watch". Ratings are placed on review when a rating action may be warranted in the near term but further information or analysis is needed to reach a decision on the need for a rating change or the magnitude of the potential change.

8 Based on the performance of the group (Moody's Investors Service) including Moody's SF Japan K.K.

9 Baseline Credit Assessments and Counterparty Risk Assessments may also be placed on review.

The time between the origination of a rating review and its conclusion varies widely depending on the reason for the review and the amount of time needed to obtain and analyze the information relevant to make a rating determination. In some cases, the ability to conclude a review is dependent on whether a specific event occurs, such as the completion of a corporate merger or the execution of an amendment to a structured finance security. In these event-dependent cases and other unique situations, reviews can sometimes last 90 to 180 days or even longer. For the majority of reviews, however, where the conclusion of the review is not dependent on an event whose timing Moody's cannot control, reviews are typically concluded within 30 to 90 days[8].

Ratings on review for possible downgrade (upgrade) have historically concluded with a downgrade (upgrade) over half of the time[8].

(5) Confirmation of a Rating

A confirmation is a public statement that a previously announced review of a rating has been completed without a change to the rating.

(6) Affirmation of a Rating

An Affirmation is a public statement that the current Credit Rating Assigned to an issuer or debt obligation, which is not currently under review, continues to be appropriately positioned. An Affirmation is generally issued to communicate Moody's opinion that a publicly visible credit development does not have a direct impact on an outstanding rating.

(7) Withdrawn - WR

When Moody's no longer rates an obligation on which it previously maintained a rating, the symbol WR is employed. Please see Policy for Withdrawal of Credit Ratings, available on Moody's website.

(8) Provisional Ratings

Moody's will often assign a provisional rating to program ratings or to an issuer or an instrument when the assignment of a definitive rating is subject to the fulfilment of contingencies that are highly likely to be completed. Upon fulfillment of these contingencies, such as finalization of documents and issuance of the securities, the provisional notation is removed[10]. A provisional rating is denoted by placing a (P) in front of the rating.

(9) Default

Moody's definition of default is applicable only to debt or debt-like obligations (e.g., swap agreements).

Four events constitute a debt default under Moody's definition:

a. a missed or delayed disbursement of a contractually-obligated interest or principal payment (excluding missed payments cured within a contractually allowed grace period), as defined in credit agreements and indentures;

b. a bankruptcy filing or legal receivership by the debt issuer or obligor that will likely cause a miss or delay in future contractually-obligated debt service payments;

[10] Program ratings for shelf registrations and medium term notes for example remain provisional while issues under these programs are assigned definitive ratings. Provisional ratings may also be assigned to unexecuted credit default swap contracts or other debt-like obligations that define specific credit risk exposures facing individual financial institutions. In such cases, the drafter of the swap or other debt-like obligation may have no intention of executing the agreement, and, therefore, the provisional notation is unlikely to ever be removed.

c. a distressed exchange whereby 1) an issuer offers creditors a new or restructured debt, or a new package of securities, cash or assets, that amount to a diminished value relative to the debt obligation's original promise and 2) the exchange has the effect of allowing the issuer to avoid a likely eventual default;

d. a change in the payment terms of a credit agreement or indenture imposed by the sovereign that results in a diminished financial obligation, such as a forced currency re-denomination (imposed by the debtor, or the debtor's sovereign) or a forced change in some other aspect of the original promise, such as indexation or maturity[11].

We include distressed exchanges in our definition of default in order to capture credit events whereby issuers effectively fail to meet their debt service obligations but do not actually file for bankruptcy or miss an interest or principal payment. Moody's employs fundamental analysis in assessing the likelihood of future default and considers various indicators in assessing loss relative to the original promise, which may include the yield to maturity of the debt being exchanged.

Moody's definition of default does not include so-called "technical defaults," such as maximum leverage or minimum debt coverage violations, unless the obligor fails to cure the violation and fails to honor the resulting debt acceleration which may be required. For structured finance securities, technical defaults (such as breach of an overcollateralization test or certain other events of default as per the legal documentation of the issuer), or a temporary missed interest payment on a security whose terms allow for the deferral of such payments together with corresponding interest (such as PIKable securities) prior to its legal final maturity date do not constitute defaults. Also excluded are payments owed on long-term debt obligations which are missed due to purely technical or administrative errors which are 1) not related to the ability or willingness to make the payments and 2) are cured in very short order (typically, 1-2 business days). Finally, in select instances based on the facts and circumstances, missed payments on financial contracts or claims may be excluded if they are the result of legal disputes regarding the validity of those claims.

(10) Impairment

A security is impaired when investors receive—or expect to receive with near certainty—less value than would be expected if the obligor were not experiencing financial distress or otherwise prevented from making payments by a third party, even if the indenture or contractual agreement does not provide the investor with a natural remedy for such events, such as the right to press for bankruptcy.

Moody's definition of impairment is applicable to debt, preferred stock, and other hybrid securities. A security is deemed to be impaired if:

[11] Moreover, unlike a general tax on financial wealth, the imposition of a tax by a sovereign on the coupon or principal payment on a specific class of government debt instruments (even if retroactive) would represent a default. Targeted taxation on government securities would represent a default even if the government's action were motivated by fairness or other considerations, rather than inability or unwillingness to pay.

a. all events that meet the definition of default (above);

b. contractually-allowable payment omissions of scheduled dividends, interest or principal payments on debt, preferred stock or other hybrid instruments[12] or contractually allowable interruptions of interest payments to similar structured finance instruments[13];

c. downgrades to Ca or C, signaling the near certain expectation of a significant level of future losses;

d. write-downs or "impairment distressed exchanges[14]" on debt, preferred stock or other hybrid instruments due to financial distress whereby (1) the principal promise to an investor is reduced according to the terms of the indenture or other governing agreement[15], or (2) an obligor offers investors a new or restructured debt, or a new package of securities, cash or assets and the exchange has the effect of allowing the obligor to avoid a contractually-allowable payment omission as described in b) above[16].

e. The impairment status of a security may change over time as it migrates from impaired to cured (e.g., if initially deferred cumulative preferred dividends are ultimately paid in full) and possibly back again to impaired.

(11) Definition of Loss-Given-Default

The loss-given-default rate for a security is 100% minus the value that is received at default resolution (which may occur at a single point in time or accrue over an interval of time), discounted by the coupon rate back to the date the last debt service payment was made, divided by the principal outstanding at the date of the last debt service payment.

In the special case of a distressed exchange default, when an investor is given new or modified securities in exchange, the LGD rate is 100% minus the trading value of the new securities received in exchange at the exchange date divided by the par value plus accrued interest of the original securities as of the exchange date.

(12) Long-Term Credit Ratings for Defaulted or Impaired Securities

When a debt instrument becomes impaired or defaults or is very likely to become impaired or to default, Moody's rating on that instrument will reflect our expectations for recovery of principal and interest as well as the uncertainty around that expectation, as summarized in the table below.[17] Given the usual high level of uncertainty around recovery rate expectations, the table uses approximate expected recovery rates and is intended to present rough guidance rather than a rigid mapping.

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12 For example, a debt security would become impaired when an obligor exercises a payment-in-kind option on a toggle bond. Examples of impairment events on non-debt securities include dividend omissions on preferred stock (both cumulative and non-cumulative) and coupon omissions on other hybrid debt securities, and write downs or conversions to equity of contingent capital securities (CoCos). Excluded from impairment events are 1) missed payments due to purely technical or administrative errors which are not related to the ability or willingness to make the payments and 2) are cured in very short order (typically, 1-2 business days after the error is recognized).

13 Moody's studies of historical impairments are likely to focus on those impairments that are sustained and not cured. Among some structured finance asset classes, where cure rates within a 12-month time frame can be high, many impairments are not likely to be included in impairment studies.

14 Impairment distressed exchanges are similar to default distressed exchanges except that they have the effect of avoiding an impairment event, rather than a default event.

15 While contractually-allowable principal write-downs on structured finance securities are impairments, failures to pay principal as contractually required are defaults. Once written down, complete cures, in which securities are written back up to their original balances are extraordinarily rare; moreover, in most cases, a write-down of principal leads to an immediate and permanent loss of interest for investors, since the balance against which interest is calculated has been reduced.

16 Examples of such impairments include mandatory conversions of contingent capital securities to common equity and mandatory write-downs of other hybrid securities that are the direct result of obligor distress.

17 The approach to impairment is consistent with the approach to default. When an instrument is impaired or very likely to become impaired, the rating will reflect the expected loss relative to the value that was originally expected absent financial distress.

APPROXIMATE EXPECTED RECOVERIES ASSOCIATED WITH RATINGS FOR DEFAULTED OR IMPAIRED SECURITIES

Expected Recovery Rate	Fundamental	Structured Finance
99 to 100%*	B1*	B1 (sf)*
97 to 99%*	B2*	B2 (sf)*
95 to 97%*	B3*	B3 (sf)*
90 to 95%	Caa1	Caa1 (sf)
80 to 90%	Caa2	Caa2 (sf)
65 to 80%	Caa3	Caa3 (sf)
35 to 65%	Ca	Ca (sf)
Less than 35% C	C	C (sf)

* For instruments rated B1, B2, or B3, the uncertainty around expected recovery rates should also be low. For example, if a defaulted security has a higher than a 10% chance of recovering less than 90%, it would generally be rated lower than B3.

Additionally, the table may not apply directly in a variety of unusual circumstances. For example, a security in default where the default is likely to be fully cured over the short-term but remain very risky over a longer horizon might be rated much lower than suggested by this table. At the other end of the rating scale, very strong credits that experience temporary default events might be rated much higher than B1[18]. Under very rare circumstances a structured finance debt security may incur a one-time principal write-down that is very small (considerably less than 1% of par) and is not expected to recur[19]. In such cases, Moody's will add this small loss amount to its calculations of the expected loss associated with the security and may rate it higher than B1.

Securities in default where recovery rates are expected to be greater than 95% can be rated in the B category as outlined in the table above. In order to be assigned a rating in the B category, the confidence level regarding the expected recovery rates should also be high. Or in other words, uncertainty should be low. As stated in the footnote to the table, if a security has a higher than a 10% chance of recovering less than 90%, then it would generally be rated lower than B3.

3. STANDARDS FOR STIPULATING GRADES INDICATING RESULTS OF CREDIT STANDING ASSESSMENT

Standards for stipulating the grades which will indicate the results of the assessment of credit standing are, in addition to the description by classification in below section A., may also use, depending on the matter subject to credit rating, any of the sector-specific ratings in section B.

18 Additionally, payments missed for operational or technical reasons may not be classified as Moody's default events. Also, in certain circumstances an issuer of a structured finance security may delay an interest and/or principal payment beyond the relevant grace period due to a temporary delay in recovery or an operational problem. In such cases, Moody's will consider the potential increase in expected loss should interest not be paid on the delayed payment and may rate the security higher than B1.

19 For example, some master servicers of US RMBS implemented a new loan modification program and divided the cost of its administration across all their transactions, resulting in a loss of a few hundred dollars per security. In other examples some rated synthetic transactions have seen a very small loss attributable to the non payment of a very small CDS premium.

A. Global Long-Term / Short-Term Ratings Scales

Global Long-Term Rating Scale

Aaa	Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.
Baa	Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
Ba	Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.
B	Obligations rated B are considered speculative and are subject to high credit risk.
Caa	Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.
Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C	Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a "(hyb)" indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.

Note: For more information on long-term ratings assigned to obligations in default, please see the definition "Long-Term Credit Ratings for Defaulted or Impaired Securities" in 2.(12).

** By their terms, hybrid securities allow for the omission of scheduled dividends, interest, or principal payments, which can potentially result in impairment if such an omission occurs. Hybrid securities may also be subject to contractually allowable write-downs of principal that could result in impairment. Together with the hybrid indicator, the long-term obligation rating assigned to a hybrid security is an expression of the relative credit risk associated with that security.*

Global Short-Term Rating Scale

P-1	Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
P-2	Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.
P-3	Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.
NP	Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.

Linkage Between the Global Long-Term and Short-Term Rating Scales

The following table indicates the long-term ratings consistent with different short-term ratings when such long-term ratings exist[20].

LONG-TERM RATING	SHORT-TERM RATING
Aaa, Aa1, Aa2, Aa3, A1, A2, A3	Prime-1
A3, Baa1, Baa2	Prime-2
Baa2, Baa3	Prime-3
Ba1, Ba2, Ba3 B1, B2, B3 Caa1, Caa2, Caa3 Ca, C	Not Prime

B. Obligations and Issuers Rated on the Global Long-Term and Short-Term Rating Scales

(1) LONG-TERM AND SHORT-TERM OBLIGATION RATINGS

Moody's assigns ratings to long-term and short-term financial obligations. Long-term ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default. Short-term ratings are assigned to obligations with an original maturity of thirteen months or less and reflect the likelihood of a default on contractually promised payments.

(2) STRUCTURED FINANCE COUNTERPARTY RATINGS

Structured Finance Counterparty Ratings are assigned to structured financial operating companies and are founded upon an assessment of their ability and willingness to honor their obligations under financial contracts.

(3) STRUCTURED FINANCE COUNTERPARTY INSTRUMENT RATINGS

Structured Finance Counterparty Instrument Ratings are assigned to a financial contract and measure the risk posed to a counterparty arising from a special purpose vehicle's (SPV's) default with respect to its obligations under the referenced financial contract.

[20] Structured finance short-term ratings are usually based either on the short-term rating of a support provider or on an assessment of cash flows available to retire the financial obligation.

(4) CREDIT DEFAULT SWAPS RATINGS

Credit Default Swaps Ratings measure the risk associated with the obligations that a credit protection provider has with respect to credit events under the terms of the transaction. The ratings do not address potential losses resulting from an early termination of the transaction, nor any market risk associated with the transaction.