COUNTY OF GALVESTON

INVESTMENT POLICY

ADOPTED BY GALVESTON COUNTY COMMISSIONERS' COURT

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Approved as to Form

Harvey Bazaman
Legal Department

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GALVESTON COUNTY, TEXAS

INVESTMENT POLICY

I. SCOPE AND LEGAL REQUIREMENTS

General Statement

This investment policy is drafted in compliance with V.T.C.A., Local Government Code §116.111, §116.112, and V.T.C.A., Government Code, Chapters §2256 (Public Funds Investment Act), and §2257 (Collateral For Public Funds Act). The policy's purpose is to define and adopt a formal investment policy and procedure for the County of Galveston (hereinafter "County") ,for all its funds including its funds not immediately required to pay obligations of the County. It does not apply to Registry Funds deposited with the County or District Clerk under Chapter 117, Local Government Code. It likewise does not apply to investments made under the County's 457 deferred compensation plan or to an investment donated to the County for a particular purpose or under terms of use specified by the donor.

Funds Included

This investment policy governs the investment of all present and future funds of the County held in custody by the County Treasurer including funds that are not immediately required to pay obligations of the County. This investment policy is not intended to permit any investment prohibited by law nor is it to be construed in contravention of any depository contract between the County and any depository bank. Any conflict between a depository contract and this investment policy will be resolved by Commissioner's Court. Unless authorized by law, the Investment Officer may not deposit, withdraw, transfer, or manage in any manner the funds of the County.

County Investment Portfolio Structure

The funds of the County entrusted to the Commissioners' Court for investment are divided into the following portfolios based on the source of funds:

Pooled Operating Account Portfolio - Includes general operating and miscellaneous funds of the County and does not encompass funds restricted by statutory, contractual bond indenture requirements, or other requirements.

Pooled Bond Funds Portfolio - Bond funds from all capital projects. The purpose of segregating investments in this portfolio from the general operating portfolio is to facilitate compliance with federal arbitrage regulations.

Debt Service Funds Portfolio - All interest and sinking funds. The purpose of segregating investments in this portfolio from the general operating portfolio is also to facilitate

compliance with federal arbitrage regulations.

Agency Funds Portfolio - Includes funds held in trust or in an agency capacity by the County.

Standard of Care

County investments shall be made with judgement and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital, liquidity, and the probable income to be derived.

Ethics and Conflicts of Interest

County officials and employees involved in the investment process shall refrain from personal business activities that could conflict with the proper execution of the County's investment program, or which could impair their ability to make impartial investment decisions.

Any investment officer, member of the Investment Committee or member of the Commissioners' Court ("individual") who has a personal business relationship with a business organization offering to engage in an investment transaction with the County shall file a statement disclosing that personal business interest. Any such individual who is related within the second degree by affinity or consanguinity, as determined under V.T.C.A., Government Code Chapter 573, to an individual seeking to sell an investment to the County shall file a statement disclosing that relationship. A copy of each such disclosure statement must be filed with the Commissioners' Court and the Texas Ethics Commission.

For purposes of this subsection an individual has a personal business relationship with a business organization if:

(1) the individual owns 10 percent or more of the voting stock or shares of the business organization or owns $5,000 or more of the fair market value of the business organization;

(2) funds received by the individual from the business organization exceed 10 percent of the individual's gross income for the previous year; or

(3) the individual has acquired from the business organization during the previous year investments with a book value of $2,500 or more for the personal account of the individual.

Definitions

Arbitrage - the simultaneous purchase and sale of the same or an equivalent security in order to profit from price discrepancies. In governmental finance, the most common occurrence of arbitrage involves investment of the proceeds from the sale of tax-exempt securities in a taxable money market instrument that yields a higher rate, resulting in interest revenue in excess of interest costs.

Auditor - the Galveston County Auditor or his designee.

Bankers Acceptance - a time draft or order to pay a specified amount on a specified date, drawn by an individual or business, which becomes an acceptance when the bank acknowledges its obligation. The bank that accepts the draft issues the acceptance for trading after acknowledging its obligation to honor the draft. It is the primary obligation of the acceptor bank and the contingent obligation of the drawer. A Bankers' Acceptance comes in either bearer or book-entry form. It is issued in various denominations. Initial maturities of bankers acceptances range from 30 to 180 days, but the short-term 90 day acceptance is the market standard.

Bid - the price buyers are willing to pay for securities; and the price at which sellers may dispose of them. An offer is the price asked by a seller of securities.

Bond Indenture - a formal agreement, also called a deed of trust, between an issuer of bonds and the bondholder. The agreement is backed by the general credit standing and earning capacity of the issuer.

Book Value - the original acquisition cost of an investment plus or minus the accrued amortization or accretion.

Broker/Dealer - a broker is a person or firm acting as an agent for buyers and sellers. A dealer is a person or firm acting as a principal in buying and selling securities. When used in this policy, the phrase "Broker-Dealer" shall also mean Qualified Representative.

Capital Adequacy Guidelines for Government Securities Dealers - The Federal Reserve Bank of New York has issued capital adequacy guidelines that should be met by any firm doing business with public entities. In 1985, the New York Federal Reserve Bank published a booklet entitled, Capital Adequacy Guidelines for Government Securities Dealers. It provides a mathematical standard for the risks incurred by a government securities dealer. The guidelines' calculations are based largely on the historical volatility of various instruments and dealers' ability to effectively hedge their risks through the use of future contracts and options. Dealers holding large positions in unhedged, long-term bonds have a higher risk factor than those who trade only in short-term Treasury bills do. Against this risk factor, the Fed's standards then calculate the capital of the firm (essentially assets less liabilities). The Federal Reserve can require only that primary dealers comply with the standard. Use of the standard throughout the remainder of the securities industry is accomplished only through voluntary participation.

The guidelines essentially calculate a single number as representing the short-term market risks of a

dealer's portfolio. Public investors seeking to employ the Fed's voluntary capital adequacy guidelines should require:

1. Continuous compliance with the Fed's capital adequacy guideline throughout the recent trading period.

2. Immediate disclosure by the Investment Institutions to the investing government whenever the firm's capital position falls short of the capital adequacy standard.

3. Independent certification by an outside auditor or similar agency that the dealer firm has complied with the capital adequacy standard on its most recent balance sheet.

Certificate of Deposit - Certificates of deposit, familiarly known as "CDs", are issued as either negotiable or nonnegotiable certificates. Nonnegotiable CDs can be issued in any denomination that the buyer would like to purchase. Jumbo CDs are typically issued for $100,000 or more in deposits. Negotiable CDs are only issued in denominations from $100,000 and up, and actively trade in the secondary market in $5,000,000 lots. Many negotiable CDs are issued in bearer form. CDs are issued against funds deposited in the bank for a specified period of time earning a specified rate of interest. Certificates of deposit bear rates in line with money market rates at the time of issuance. CDs are in either registered or book-entry form. The issuing bank has the irrevocable obligation to pay back principal and interest at maturity.

Collateral - Property pledged as security for a debt or assets held by an individual or entity.

Commercial Paper - "Commercial Paper" is the market name for the short-term, (2 to 270 days) unsecured promissory notes issued by various entities, in the open market to finance certain short-term credit needs. It generally is backed by unused bank credit lines to repay the notes in the event the issuer is unable to roll the paper over in the market at maturity. Virtually all paper issued through dealers is rated by at least one of the independent rating agencies such as Moody's Investors Service, Inc., or Standard & Poor's Corporation. Commercial paper purchased from dealers is usually bought and sold on a discount basis, figured for the actual number of days to maturity on a 360 day basis. Interest bearing commercial paper is also available. The minimum round-lot transaction is $100,000, although some issuers sell commercial paper in denominations as small as $25,000. The notes are normally issued in bearer form and payment at maturity if effected by presentation to the bank designated as paying agent on the face of the note.

Commissioners' Court - the Galveston County Commissioners' Court.

Consolidated Report of Condition - Reports required of banks by Federal regulatory agencies which shows their financial condition (assets, liabilities, equity, income, stocks etc.)

County Treasurer - the Galveston County Treasurer or his designee.

Credit and Capitalization Analysis - Fundamentally, there are three ways to assess the credit risk of investing funds through a given financial institution. First, a public investor might rely exclusively on credit ratings and credit research performed by a rating agency or credit evaluation service. Second, an investor can compare various institutions' financial statistics provided by certain information services. Third, the public investor can use common statistical and analytical techniques to study and analyze financial data provided in public financial reports to regulatory agencies to produce an independent credit evaluation.

CUSIP Number - a unique nine-character alphanumeric code often used with the standard security description to identify, report and transfer a specific securities issue. The CUSIP root is the first five or six digits of the number. The remaining numbers identify the specific issue of the security. CUSIP (Committee on Uniform Security Identification Procedures) is part of the American Bankers Association.

Delivery vs. Payment - delivery of securities in exchange for a cash payment. Funds are not wired until the securities are delivered. If the transfer is accomplished through the Fed wire system, directly between two parties, the investor is notified before cash is released. If a third party acts as custodian, funds are released by the custodian only when delivery is accomplished. In short: "No delivery, no payment, no investment security".

Default Risk - a security issuer's underlying creditworthiness or the issuer's ability to repay an investors principal. Securities that are backed by the full faith and credit of the U.S. government are considered as "no default risk" securities.

Derivative Investments - a financial instrument created from or whose value depends on or is derived from the value of one or more underlying assets, such as securities, currencies, indexes of asset values, or interest rates. Examples of derivatives are collateralized mortgage obligations (CMOs), interest-only (IOs) and principal only (POs), forwards, futures, currency and interest-rate swaps, options, floaters/inverse floaters, Treasury receipts and caps/floors/collars.

Discount - the difference between the price of an investment instrument (bond) and its value at maturity when the price is lower than the maturity value.

Diversification – The spreading of risk by placing assets in several categories of investment, maturities, issuers and Broker / Dealers.

Federal Deposit Insurance Corporation (FDIC) - the regulatory authority primarily concerned with bank safety and protecting depositors from losses because of bank insolvency. The FDIC accomplishes this through its role in bank examination and supervision and as a lender of last resort.

FASB - since July 1, 1973, the Financial Accounting Standards Board has been responsible for establishing the accounting standards that comprise "generally accepted accounting principles"

(GAAP).

Federal Reserve Wire - the real-time system for funds transfer operated by the Federal Reserve.

GAAP - the network of concepts, principles, standards, procedures, and practices designed to assure that external financial statements are relevant and reliable.

GASB - the Governmental Accounting Standards Board is responsible for establishing accounting standards for activities and transactions for state and local governments. The most recent accounting standard issued by GASB to cover Investments by Public Institutions can be found in GASB 31.

Investments - securities held for the production of revenues in the form of interest, excluding Money Market Investment Accounts, Savings Accounts and Now Accounts.

Investment Committee - the Galveston County Investment Committee as appointed by Commissioners' Court.

Investment Officer - the officer and/or employee of the County appointed by the County to be responsible for the investment of its funds consistent with this Investment Policy.

Liquidity - the ability to convert assets to cash quickly, without losses.

Market Value - the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

Maturity - the date on which the principal or stated value becomes due and payable in full to the owner of an investment instrument i.e. bonds.

Money Market Investment Account - accounts which have features of both time deposits and demand deposits, although the checkwriting aspects of these accounts are usually restricted. These accounts are also referred to as Money Market Demand Accounts by banks. Because a bank can require several days notification before allowing funds to be withdrawn from these accounts, they are usually classified as time deposits by the American Banker's Association.

Money Market Mutual Fund - Money Market Mutual Funds are commercially operated by private firms which are governed by a board of directors and are generally organized as no-load, open ended investment companies regulated by the federal SEC under the Investment Company Act of 1940. Investors in money market funds benefit from short-term interest rates without subjecting themselves to short-term price risks. Operated in much the same manner as a statewide investment pool, money market funds investment portfolios usually consist of short-term securities and seek to maintain a stable share price of $1. This $1 share price is not guaranteed. This objective has been

accomplished throughout the history of the industry by SEC regulations which limit the maturities of the individual portfolio securities to one year or less and the average portfolio maturity to 90 days. The SEC now requires that 95% of a money market fund's portfolio must consist of government securities or money market instruments rated A-1/P-1. The portfolio of the funds are controlled by the prospectus and investment policies established by the directors, which usually require a shareholder vote to change. Because most states limit the use of mutual funds by governmental investors to only those with portfolios consisting of securities otherwise allowable by state law, a governmental investor must verify whether the mutual fund complies with state law by reviewing the prospectus and statement of additional information (both must be provided on request).

National Association of Securities Dealers - an organization which regulates non-primary dealers.

Negotiable Order of Withdrawal -(NOW) Accounts at approved Depository Banks. These accounts are interest bearing checking accounts, with variable rates set by the depository bank.

Par Value - face amount or 100% of the principal amount of a security at original issue.

Portfolio - a combination of assets (securities) owned for investment.

Premium - the difference between the price of an investment instrument (bond) and its value at maturity when the price is higher than the maturity value.

Primary Market - the market in which financial assets are originally issued.

Primary Government Securities Dealer - the Federal Reserve Bank of New York, which acts as the Federal Reserve system's trading agent for monetary policy, designates primary dealers in government securities. They make a market for new issues and are also authorized to conduct business directly with the Federal Reserve System. These dealers are expected to provide a complete market in the entire spectrum of Treasury instruments. The primary dealers are expected to participate actively in all Treasury auctions to conduct business with the Fed's open market trading desk.

Qualified Representative - a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

(A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers:

(B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or

(C) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or

(D) for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

Rate of Return - the return on an investment during a specific time interval. It may be the actual rate or expected rate of return.

Reporting Dealers - primary dealers in government securities that are monitored by the New York Federal Reserve Bank. Although the Fed's monitoring of reporting dealers offers some control and reduces the likelihood of fraud, it does not assure protection against all potential defaults.

Repurchase Agreement - a repurchase agreement (repo) consists of two simultaneous transactions. One is the purchase of securities (collateral) by an investor from a bank or dealer. The other is the commitment by the bank or dealer to repurchase the securities at the same price, plus interest, at some mutually agreed future date. The collateral used most frequently is Treasury, mortgage-backed or other agency securities. The vast majority of repos mature in three months or less. One-day transactions are called overnight repos; longer transactions are called term repos. The repo rate is the rate of interest that the dealer pays the investor for the use of his funds. The repo typically trades at higher yields relative to other market instruments. Rates depend on the type of collateral. The higher the credit quality and easier the security is to deliver and hold, the lower the Repo rate. By definition, Repos can be contracted either as two party transactions where the securities are held at the dealer, or as Tri-Party transactions where the securities are held at a third party institution which only releases money or securities on a Delivery Vs. Payment basis.

Safekeeping Receipt - a physical document which evidences ownership of a security.

SIPC Insurance Program - Securities Investor Protection Corporation (SIPC) is a nonprofit corporation funded by its member SEC registered broker/dealers that protects customer accounts in the event of the financial failure of a member. SIPC distributes customer assets and then provides funds for all remaining claims of each customer up to a maximum of $500,000 including up to $100,000 on claims for cash. SIPC does not consider repurchase agreements participants to be customers of its members broker-dealers and does not extend its insurance to repurchase agreements.

Treasury Bills - an obligation of the U.S. government to pay the bearer a fixed sum on a specific date. Treasury bills are issued on a discount basis (they are sold at a dollar price less than their redemption value at a maturity, with difference, or discount, constituting the payment of interest).

Bills are issued only in a book-entry form and are paid at face amount without additional interest at maturity. They are issued in a variety of denominations from $10,000 up and may be exchanged only for smaller denominations. They have original maturities of 13 weeks, 26 weeks, and 52 weeks.

Treasury Notes and Bonds - coupon securities paying interest every six months, issued by the Federal Government. Treasury notes may be issued with a maturity of not less than one year nor more than 10 years. Bonds are coupon securities with maturities exceeding 10 years, and are generally issued with 15, 20, or 30 year original maturities. Most treasury bonds with longer initial maturities carry a call provision, which allows the Treasury to redeem the bond prior to maturity on or after the specified call date. Coupon securities are available in denominations ranging from $5,000 upward in multiples of $1,000. The coupon securities are issued in either bearer or registered form (new Treasury bonds available only in book-entry form). Most treasury coupon securities bear maturity date of the 15th or the end of the month. Notes have original maturities of 2,3,4,5,7 and 10 years.

Treasury Securities - "full faith and credit" obligations of the U.S. Government issued by sale at periodic auctions, delivered and cleared electronically.

Treasury Strips - are the Separate Trading of Registered Interest and Principal (STRIP) of Treasury Securities which are direct obligations of the U.S. Treasury. All new Treasury Notes and Bonds issued by the U.S. Treasury for 10 years or longer are eligible for "stripping" by dealers. In this process, each individual interest payment, and principal payment is sold as a separate Zero-Coupon bond with its own CUSIP registration. They are sold at a discount with payment due at maturity, and are only available in book entry form. Even though payment is not received until maturity, taxes are due yearly on any interest earned. Treasury Receipts, which trade under the names TIGRS and CATS, are Treasury Bonds held in trust, with coupon and interest payments broken apart and sold as Zero-Coupon obligation by dealers, are not to be considered Treasury STRIPS. Treasury STRIPS are not derivatives.

U4 - Both the NASD and the NYSE require a registration form known as a U4 for any broker conducting transactions involving these exchanges.

It is required that firms notify the NASD if a broker is;

- subject to disciplinary actions by a firm involving suspension, termination, withholding of commissions, or imposition of fines over $2,500.
- subject to disciplinary action by a self-regulatory organization.

The NYSE requires notification if a broker is:

- in a violation of any of the Securities Acts,
- accused by a client of forgery, theft, or misappropriation of funds,
- disciplined by a self-regulatory organization,
- arrested, indicted, or convicted of any criminal offense (except minor traffic violations)

- the subject of a customer claim for damages exceeding $15,000 which has been settled or disposed of by award.

These notifications are reviewed by their respective markets and a determination is made whether to continue, suspend or revoke a broker's registration. A similar report is also available from the NASD on individual firms through the Public Disclosure Program.

Yield - the rate of return an investor earns on an investment over a specified period of time.

Yield Curve - the relationship between current market interest rates (or yields) and maturity. A normal yield curve is upward sloping (i.e., longer-term securities usually offer higher yields).

Yield to Maturity - the average annual return on an investment based on the interest rate, price and the length of time to maturity. It differs from current yield in that it takes into consideration the increase to par of a bond bought at a discount and the decrease to par of a bond bought at a premium. Yield to Maturity should be computed on a U.S. Government bond equivalent yield.

Weighted Average Maturity (WAM) – The average maturity of all securities and cash positions that comprise a portfolio.

Zero Coupon Bond – is an instrument such as a Treasury Bill sold at a discount which has no coupon and pays 100% of face value at maturity. Its maturity can range anywhere from 1 day to 100 years, but is typically less than 30 years.

II. INVESTMENT STRATEGY

The County maintains portfolios which utilize specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios:

A. **Pooled Operating Funds Portfolio -** Investment strategies for operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short to medium term securities which will complement each other. The suggested WAM of this portfolio should be less than 10 months, and therefore should be benchmarked against the 6 month Treasury Bill Rate. The maximum pre-approved maturity will not exceed 3 years. This portfolio should include at least 2 months anticipated expenses in highly liquid securities.

B. **Debt Service Funds Portfolio -** Investment strategies for debt service funds will have as their primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. The WAM, and maximum maturity of this portfolio will depend upon debt service obligations. All Debt Service Funds are to remain segregated, in separate accounts and investments, from the County's Operating Funds until the time at which they are to be expensed.

C. **Pooled Bond Funds and Agency Funds Portfolio -** Investment strategies for capital projects and agency funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10 percent in highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date. The WAM for this portfolio will depend upon anticipated cash flows. All Bond Funds are to remain segregated, in separate accounts and investments, from the County's Operating Funds until the time at which they are to be expensed.

III. INVESTMENT OBJECTIVES FOR ALL FUND STRATEGIES

General Statement

Funds of the County shall be invested and managed in accordance with federal and state laws, this investment policy, and written administrative procedures developed by the County Investment Officer. Strict compliance with V.T.C.A., Chapters 2256 and 2257 is mandatory. The County's investment portfolio shall be managed in a manner to attain the maximum rate of return allowed through prudent and legal investment of County funds while preserving and protecting capital in the overall portfolio. The investment policy shall be utilized to administer the County's

overall Cash Management Program.

Standards and Investment Priorities

The County intends to maintain the highest professional and ethical standards as custodians of the public trust. The following six (6) investment objectives are investment priorities in order of importance;

A. **Investment Suitability** - The suitability of the investment to the financial requirements of the county shall be evaluated on a case by case basis, taking into account the investments influence on the overall portfolio structure and needs.

B. **Preservation and Safety of Principal** - The County is concerned about the return of its principal; therefore, preservation and safety of principal is the primary objective in any investment transaction.

C. **Liquidity** - The County's investment portfolio must be structured in such a manner which provides for liquidity necessary to pay obligations as they become due.

D. **Marketability of Investments** - The marketability of the County's investments should be closely monitored to ensure the marketability of the investment if the need arises to liquidate the investment before maturity.

E. **Diversification** - It is the policy of the County to diversify its portfolio to eliminate unreasonable and avoidable risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of investments. Investments of the County shall always be selected that provide for safety of principal, stability of income, reasonable liquidity and diversification.

F. **Yield** - It is the objective of the County to earn the maximum rate of return allowed on its investments within the policies imposed by its safety and liquidity objectives. The average minimum rate of return for the entire portfolio, excluding funds needed for current obligations, should be at least equal to a "no default risk" rate of return indicator, like the return on the three-month Treasury bill. Except for the following exceptions, the County may only invest in a particular eligible investment if its yields are equal to or greater than the equivalent yield on United States Treasury obligations of comparable maturity. Money Market Mutual Funds, Money Market Investment Accounts, Repurchase Agreements and Certificates of Deposit may be invested at lower yields.

If funds are subject to yield restrictions due to federal arbitrage regulations, those funds are excluded from the yield calculation. The major objectives for the bond funds governed by Federal arbitrage regulations are to maximize permitted market yield and to minimize investment costs.

Additional Objectives for all Fund Strategies are:

A. **Maturity** - Portfolio maturities will be structured to achieve the highest return of interest consistent with liquidity requirements of the County's cash needs, based upon the market environment at the time of investment. Investments will be held with the intent to hold to maturity.

   The Investment Officer will monitor the maturity dates of all investments to minimize risk of loss from interest rate fluctuations and to help ensure that the maturities do not exceed the anticipated cash flow requirements of the investment portfolio.

B. **Active Portfolio Management** - The County intends to pursue an active versus a passive portfolio management philosophy. Securities may be sold or exchanged before they mature without sacrificing principal if market conditions present an opportunity for the County to benefit from a trade. Under this investment policy, all investments will be made with the intent of pursuing, at the time of purchase, the best rate of return on securities held until maturity, and not with the intent of speculative trading.

County funds will generally be placed for investment periods not to exceed thirty-six (36) months if permitted by the Public Funds Investment Act. Longer investment periods will be considered upon recommendation of the Investment Committee and approval by the Commissioners' Court.

With the exception of funds restricted by statutory, contractual, bond indenture requirements, or other requirements, all other County funds shall be considered the general funds of the County and shall generally be invested using the attached guidelines on a daily basis under an investment program, managed by the Investment Officer to maximize interest yield on County funds without sacrificing the preservation of principal, with funds becoming available as needed to meet the financial needs of Galveston County.

Deposit of Funds

All funds belonging to the County and received by County officials shall be officially deposited with the County Treasurer upon receipt or by the next day after receipt and in accordance with prescribed policy and procedure; however, without exception, all funds shall be deposited within five (5) business days from the date of collection by said officer, in accordance with State statutes.

Except for Repurchase Agreements, the proceeds from any sold or maturing investment will be placed in the County's Demand Account at its main depository. A Repurchase Agreement may be originally established to provide that funds from a maturing Repurchase Agreement may, in the discretion of the Investment Officer, remain within the account. If the Investment Officer makes such a determination the agreement may be automatically renewed.

Quality, Capability, and Training of County Treasurer and Investment Management

It is the County's policy to provide annual funding for periodic training in investments for the County Treasurer and its Investment Officer through courses and seminars offered by professional organizations and associations in order to help insure the proficiency of the County Treasurer and the Investment Officer in making investment decisions.

The County Treasurer and the Investment Officer shall:

1) Attend at least one training session from an independent source approved by the Commissioners' Court or the County's Investment Committee and containing at least 10 hours of instruction relating to the County Treasurer's or Investment Officer's responsibilities under the Public Funds Investment Act within 12 months after taking office or assuming duties; and

2) Attend an investment training session not less than once in a 2 year period and receive not less than 10 hours of instruction relating to investment responsibilities under the Public Funds Investment Act from an independent source approved by the Commissioners' Court or the County's Investment Committee.

The training received must include education in investment controls; diversification of an investment portfolio; security risks, strategy risks, and market risks; investment strategies; and compliance with the Public Funds Investment Act.

IV. INVESTMENT RESPONSIBILITY AND CONTROL

County Investment Officer / Duties

V.T.C.A. Government Code 2256.005 (f), authorizes the Commissioners' Court to designate by order, rule, or resolution one or more officers as Investment Officer to be responsible for the investment of County funds.

Local Government Code Section 116.112(a), V.T.C.A. Government Code Section 2256.005, provides the County Treasurer, under direction of the Commissioners' Court, may

invest County funds that are not immediately required to pay obligations of the County as provided by the Public Funds Investment Act.

The Commissioners' court is authorized certain responsibilities and authorities by LGC subchapter E. Depository Accounts § 116.111 entitled "Character and amount of deposits" and § 116.12 entitled "Investment of Funds". The authority in these sections is hereby delegated to the Investment Officer, as further described in the Investment Procedures which are approved by Commissioners' Court.

The County Treasurer is the Investment Officer for County Funds and is responsible for making this determination and for making investment decisions and activities for County funds consistent with this Investment Policy. He shall continue to serve as Investment Officer until his appointment is rescinded by the Commissioners' Court and a successor(s) is appointed. He shall act in compliance with this Investment Policy, invest only in investment instruments authorized by this Policy and prepare sufficient documentation necessary to evidence such investments. The Investment Officer may not acquire or otherwise obtain any authorized investment described in this policy from a person who has not delivered to the County the Certification attached to this Policy as Exhibit 2. The Investment Officer may authorize an employee in his Department to act on his behalf.

The Investment Officer will: monitor the securities purchased in any county escrow account, monitor the quantity and character of any collateral posted against either deposits at a County Depository or any other investments requiring collateral, and reflect the results of this monitoring in his investment report. The Investment Officer, in his capacity as County Treasurer has the authority to release collateral.

Third Party Investment Officer

Government Code §2256.005 permits the Commissioners' Court to contract with another investing entity to invest its funds. If the Commissioners' Court chooses to do so, the investment officer of the other investing entity is considered to be the investment officer of they County for purposes of the Public Funds Investment Act and this Investment Policy, and his actions are subject to this policy, Public Funds Investment Act and any other related laws in relation to the investment of Galveston County Funds.

Expiration of Authority

Authority granted to a person to invest County funds is effective until:

I. such authority is rescinded.
II. the Investment Officer's term has expired.
III. if the Investment Officer is an employee, his employment terminates; or
IV. if the Investment Officer is an Investment Management firm, its contract expires

or is terminated.

Administrative Procedures

The Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program. Such procedures will be consistent with this investment policy and accounting procedures prescribed by the County Auditor. Such procedures shall also be in accordance with V.T.C.A., Government Codes, Chapters 2256 and 2257 and approved by the Commissioners' Court prior to implementation.

Internal Control

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance the assets of the County are protected from loss, theft or misuse. The internal controls shall be annually reviewed by the Investment Committee. The controls shall be designed to prevent losses of Public Funds arising from fraud, employee misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the County shall and address the following points:

A. Control of collusion.

B. Separation of transaction authority from accounting and recordkeeping.

C. Custodial safekeeping.

D. Avoidance of bearer-form securities.

E. Clear delegation of authority.

F. Written confirmation for telephone transactions for investments and wire transfers.

Prudence

The standard of prudence to be applied by the Investment Officer shall be the "Prudent Investor" rule which states, "All Investments shall be made with judgment and care, under prevailing circumstances that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." In determining whether an

Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

A. The investment of all funds under the County's control, over which the officer had responsibility; and

B. Whether the investment decision was consistent with the written investment policy of the County.

Notwithstanding the standard of prudence imposed on the Investment Officer, the Commissioners' Court retains ultimate responsibility as fiduciaries of the County's assets.

Nonculpability

The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

Quarterly Reports

Not less than quarterly, the Investment Officer shall prepare and submit to the Commissioners' Court a signed quarterly investment report for all funds for the preceding reporting period. Each report will be submitted within 90 days of the end of the reporting period.. The report will:

A. Describe in detail the investment position of the County on the date of the report.

B. Contain a summary statement prepared in compliance with generally accepted accounting principles of each pooled fund group that states the beginning market value for the reporting period, additions and changes to the market value during the period (performed monthly), the ending market value for the period and the fully accrued interest for the reporting period.

C. State the book value, and market value and interest rate of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.

D. State the maturity date of each separately invested asset that has a maturity date.

E. State the account or fund or pooled group fund for which each individual investment was acquired.

F. State the name of the brokerage firm associated with each investment.

G. State the account or fund or pooled group fund for which each individual investment was acquired.

H. Contain a statement of compliance of the County's investment portfolio with State Law, its investment strategy and this Policy.

I. If any investments are made in other than money market mutual funds, or accounts offered by the County's depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the Investment Officer shall be formally reviewed at least annually by an independent auditor and the result of the review shall be reported to the Commissioners' Court by that auditor.

J. Contain a statement regarding the compliance of County Depositories and Broker/Dealers to fully collateralize county funds, where required.

K. Contain a statement regarding the continued monitoring and compliance of trustee oversight of Galveston County escrow accounts.

L. Contain a general overview of the current market and rate environments, and a brief investment plan for the next reporting period.

Liability of the County Treasurer

As stated in V.T.C.A. Local Government Code, §113.005 the County Treasurer is not responsible for any loss of County funds through the failure or negligence of a depository. This section does not release the Treasurer from responsibility for a loss resulting from the official misconduct or negligence of the Treasurer, including a misappropriation of funds, or from responsibility for funds until a depository is selected and the funds are deposited.

Investment Committee

There is hereby established an Investment Committee. Members include the County Treasurer, the County Judge, the Director of Finance and Administration and an unpaid private sector investment professional appointed by the Commissioners' Court. A member may resign from the committee at will by advising the rest of the committee of their desire to do so in writing. The Investment Professional shall serve a term of two years, or until his/her successor

is appointed, beginning on each even year and starting Sept 30th. This individual's appointment is renewable for more than one term to a maximum of five (5) terms.

The Investment Committee shall serve in an advisory capacity only. The Committee shall perform such duties assigned to it by this Policy and such other duties as may, from time to time, be assigned to it by the Commissioners' Court.

The Investment Committee shall meet at least quarterly. It may meet more often as desired. Two members may request a meeting. Two members constitute a quorum.

The Investment Committee is charged with the duty of determining general investment strategies for the County and monitoring results. It shall include in its deliberations such topics as economic outlook, investment strategies, portfolio diversification and maturity structure, potential risks to County funds, authorized depositories, brokers and dealers, and the target rate of return on the investment portfolio.

The Investment Committee shall work in conjunction with the Investment Officer in the development of written investment procedures. Such procedures, upon approval of the Commissioners' Court, shall be utilized by the Investment Officer in making investments.

V. AUTHORIZED INVESTMENTS AND COMPETITIVE SELECTION CRITERIA

ALL INVESTMENTS MADE BY THE COUNTY MUST COMPLY WITH THE PUBLIC FUNDS INVESTMENT ACT, SUBCHAPTER A AND ALL FEDERAL, STATE, AND LOCAL STATUTES, RULES, OR REGULATIONS.

Authorized Investments

The Investment Officer, without further action by the Commissioners' Court, shall be authorized to utilize the following types of investments for the investment of County Funds:

1. **Obligations** of the United States Government in the form of Treasury Bills, Treasury Notes, and Treasury Strips (excluding any form of Treasury Receipts).

2. **Certificates of Deposits** at approved Depository Banks the payment of which is insured in full by the Federal Deposit Insurance Corporation (or) and collateralized with direct obligations of the United States Government or direct obligations of any agency or

instrumentality of the United States Government (with the exception of derivatives) which is guaranteed by the full faith and credit of the United States Government and have a market value of not less than 110% of the principal amount of the certificates. This authorization excludes bearer form, negotiable CDs.

3. **Fully collateralized direct Repurchase Agreements** with a defined termination date, must be purchased pursuant to a Master Contractual Agreement in the form in Exhibit 1 which specifies the rights and obligations of both parties and which requires that securities involved in the transaction shall be pledged to the County, held in the County's name, deposited at the time the investment is made, and held in a third party Safekeeping Account subject to the approval, control, and custody of the County. (Known as a Tri-Party Repurchase Agreement) Issuers of Repurchase Agreements must wire transfer the collateral to the safekeeping agent through the Federal Reserve System. Collateral securities must be periodically monitored and shall consist of U.S. Treasury Securities and U.S. Agency Obligations (with the exception of derivatives) which shall have a daily calculated market value of not less than 102% of the principal amount of the funds disbursed and which must mature not later than the date stated in the Repurchase Agreement.

   Before entering into a Repurchase Agreement with an issuer, that issuer must sign a Master Contractual Agreement in the form in Exhibit 1 and return it to the Investment Officer.

   Acceptable Third Party Custodians on Tri-Party Repurchase Agreements include: Any approved Depository Bank, Bank of New York, the Federal Reserve Bank of Dallas or Chase Bank. Any other third party safekeeping agent must be approved by the County before execution of the Repurchase Agreement. The tri-party repurchase agreement shall be placed through an approved primary government securities dealer, as defined by the Federal Reserve, or an approved county depository bank.

4. **Money Market Investment Accounts** at approved Depository Banks, where not in conflict with the Depository Contracts.

5. **Negotiable Order of Withdrawal** (NOW) **Accounts** at approved Depository Banks, where not in conflict with the Depository Contracts.

6. **Local Government Investment Pools** that, from time to time, are recommended by the Investment Committee and approved by the Commissioners' Court. Designation as an approved Local Investment Pool does not ensure that funds will be placed with the Pool so designated. The Investment Officers will, at all times, maintain a current list of authorized, qualified and approved Local Investment Pools.

7. **CDARS: Certificates of Deposit Account Service** which are Multi-Million Dollar FDIC Insurance, under one agreement, earning one interest rate per investment, with option of

reinvesting.

8. **Obligations of, or Guaranteed by Governmental Entities**

A. Except as provided by Subsection (B), the following investments are permitted:

(1) other obligations of the United States or its agencies and instrumentalities.

(2) direct obligations of this State or its agencies and instrumentalities.

(3) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this State or the United States or their respective agencies and instrumentalities; and

(4) obligations of states' agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent.

B. The following are not permitted investments inasmuch as they are not authorized by the Public Funds Investment Act or are not in the best interest of the County:

(1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;

(2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

(3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years

(4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in market index (inverse floaters)

(5) agency subordinated debt; and

(6) corporate securities backed by agency letters of credit

No premium shall be paid for any of the above described debt instruments, negotiable instruments, or investment agreements where either the indentures or investment contracts provide for recall of the instruments and/or early payment by the debtors or obligor or where surrender or transfer of the instruments for cash may be required before their stated maturities.

Investments Requiring Additional Approval

The Investment Officer, upon recommendation by the Investment Committee and prior approval being obtained by the Commissioners' Court, shall be permitted to utilize the following types of investments for the investment of County funds:

1. **Certificates of Deposit** issued by a State or National Bank other than an approved Depository Bank, a saving and loan association domiciled in this state, or a state or federal credit union domiciled in this state that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; and collateralized with direct obligations of the United States Government or direct obligations of any agency or instrumentality of the United States Government (with the exception of derivatives) which is guaranteed by the full faith and credit of the United States Government and have a market value of not less than the principal amount of the Certificates

2. **Bankers' acceptance** if such Bankers' acceptance:

   (1) has a stated maturity of 270 days or fewer from the date of its issuance;

   (2) will be, in accordance with its terms, liquidated in full at maturity;

   (3) is eligible for collateral for borrowing from a Federal Reserve Bank; and

   (4) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

3. **Commercial paper** if the commercial paper:

   (1) has a stated maturity of 270 days or fewer from date of it issuance; and

   (2) is rated not less than A-1 or P-1 or an equivalent rating by at least:

      (a) two nationally recognized credit rating agencies; or

      (b) one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

4. (A.) **No-load money market mutual funds** if the mutual fund:

(1) is registered with and regulated by the Securities and Exchange Commission;

(2) provides the investing strategy with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.)

(3) has a dollar-weighted average stated maturity of 90 or fewer; and

(4) includes in its investment objectives the maintenance of a stable net asset value of $1 for each share.

(5) Has not caused a loss of Principal for a public entity.

(B.) The County is not authorized by this section to:

(1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Subsection (A);

(2) invest any portion of bond proceeds, reserves and funds held for debt service in mutual funds described in subsection (A); or

(3) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual described in Subsection (A) in an amount that exceeds 10 percent of the total assets of the mutual fund.

Competitive Selection Criteria

Before the County invests any surplus funds, a well documented "bid/offer request" process shall be conducted by the Investment Officer which provides a public record available for audit and review. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, three bids/offers will be requested for instruments which meet the maturity requirement.

VI. INVESTMENT INSTITUTIONS

The Investment Officer is authorized to utilize the following types of institutions or groups to facilitate the investment of County funds consistent with Federal and State Laws and the County's Bank Depository contracts, provided that each institution has been first duly authorized by Commissioners' Court, with each officials name or title recorded in the Court's minutes.

1. Depository Bank(s)

2. Securities and Investment Firms
3. Bank Dealers
4. An investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order, ordinance or resolution.

The Investment Officer shall maintain a listing of financial institutions which are approved by Commissioners' Court for investment purposes. Banks shall provide their most recent Consolidated Report of Condition at the request of the County. At a minimum, the County shall conduct an annual evaluation of each bank's creditworthiness to determine whether it should be on the "Approved Broker/Dealer and Bank" list.

Securities dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers, unless a comprehensive credit and capitalization analysis reveals the firm is adequately financed to conduct public business.

A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the County or to an investment management firm under contract with the County to invest or manage the County's investment portfolio. For purposes of this subsection, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the County's investment portfolio. Nothing in this subsection relieves the County of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction with the County shall execute a written instrument in a form acceptable to the County and the business organization substantially to the effect that the business organization has:

(1) received and reviewed the Investment Policy of the County; and

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the County and the organization that are not authorized by the County's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the County's entire portfolio or requires an interpretation of subjective investment standards.

This Article VI does not prohibit the County or the Investment Officer from using County employees or the services of a contractor to aid the Investment Officer in the execution of his duties

under the Public Funds Investment Act.

VII. AUTHORIZED COLLATERAL AND COLLATERAL PROCEDURES

The investment of any Galveston County funds shall be collateralized consistent with Federal and State statutes and regulations. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure.

Certificates of Deposit must be guaranteed or insured as set forth in Article V. Collateral securities shall have a market value of not less than the principal amount of the certificates and will not consist of derivative investment instruments.

VIII. SAFEKEEPING AND CUSTODY

The investment of all County funds shall be secured by written safekeeping documents which shall be held by a disinterested third party national bank, or the Federal Reserve, in the County's name. The safekeeping agent shall issue a safekeeping receipt to the County listing the specific instrument, par amount, maturity date, CUSIP number, transaction date, safekeeping receipt number, and other pertinent information required by the County. The custodian shall process all County security transactions on a "delivery vs. payment" basis. By so doing, County funds are not released until the County has received, through the Federal Reserve wire, the securities purchased.

IX. SELECTION AND COMPLIANCE OF BROKER/DEALERS AND OTHER QUALIFIED REPRESENTATIVES

Broker/Dealer and other Qualified Representatives Questionnaire and Certification Requirements

Before engaging in investment transactions with a broker/dealer not on the approved broker/dealer list, the Broker/Dealer must obtain a copy of the following forms from the Investment Officer:

1. Broker/Dealer Certification (Exhibit 2)
2. Broker/Dealer Questionnaire (Exhibit 3)
3. This Investment Policy Manual
4. Public Funds Investment Act
5. Delivery Instructions
6. Anti-Collusion Statement (Exhibit 4)
7. Capital Adequacy Guideline/Focus Statement (Exhibit 5)

The Broker/Dealer Questionnaire, Anti-Collusion Statement, Broker/Dealer Certification forms, financial statements, NASD Certification Proof, Texas State Securities Registration proof

and proof of professional liability insurance policies must be completed by prospective security Broker/Dealers and given to the Investment Committee to enable the Investment Committee to have information needed to evaluate a firm's capabilities and potential risks. The certification form must include a certification that the Broker/Dealer has personally received, reviewed, and understands the County's investments policies and has implemented reasonable investment transaction procedures and controls to facilitate compliance therewith. In addition, the County and the Broker/Dealer will, at all times, strive to preclude imprudent investment activities arising out of transactions conducted between the firm and the County. In order to accomplish this, the County also requires that all brokerage firms submit the most current U4 on each broker who will be servicing the County's accounts outlining any disciplinary history taken against the broker. The Broker/Dealer must also submit references by other public fund investment officers and provide evidence of capital adequacy along with a statement, in the form prescribed in Exhibit 5, that the firm voluntarily complies with the Federal Reserve's Capital Adequacy Guidelines (CAG).

Qualifications for Approval as Broker/Dealer

Once prospective and currently authorized Broker/Dealers have completed the questionnaire and returned other required information, the Investment Committee shall perform an evaluation of responses and, if necessary, make recommendations to the Commissioners' Court to incorporate or delete Broker/Dealers from the approved Broker/Dealers list. The Investment Committee shall recommend for approval, Broker/Dealers which demonstrate possession of the following criteria:

1. Institutional Investment Experience

2. Good References from public fund investment officers

3. Adequate capitalization per the Capital Adequacy Guidelines for Government Securities Dealers published by the New York Federal Reserve Bank

4. An understanding of the County's Investment Policies and Procedures

5. Membership in good standing in the National Association of Securities Dealers, Inc.; and

6. Valid licensure from the State of Texas

7. A U4 reflecting high standards in business dealings with both public and private entities.

8. Return all required documents, signed, and in the exact form as they were provided by Galveston County.

For Brokers/Dealers of government securities, the Investment Committee shall recommend only primary government securities dealers that report daily to the New York Federal Reserve Bank, unless a comprehensive credit and capitalization analysis reveals that the firm is adequately financed to conduct public business. The Investment Committee will not recommend a securities dealer with whom or through whom public entities have paid excessive prices.

Although having an office in Texas is not a required criteria, the County prefers working with Broker/Dealers with offices located in Texas.

Approval of Broker/Dealer

The Commissioners' Court at least annually will approve Broker/Dealers recommended by the Investment Committee. The County may only purchase securities from authorized and qualified Broker/Dealers. Designation as a Broker/Dealer does not ensure that purchases of securities will be made by the County through such Broker/Dealer. The Investment Officer will at all times maintain a current list of authorized, qualified and approved Brokers/Dealers. The list will contain the date each such Brokers/Dealers was approved by the Commissioners' Court.

Due to the fluid nature of brokerage personnel within this industry, the County feels that it should preserve its relationship with the Dealer. In order to continue to do business with the County, the firm need not wait for yearly reapproval, but may resubmit paperwork covering a new broker servicing the account. This will be presented to the Investment Committee for re-approval. Brokers leaving a dealer for another firm must wait until the next approval period in order to submit an application as a Broker/Dealer for Galveston County.

Annual Review of Approved Broker/Dealers

New applicants and currently utilized Broker/Dealers must comply with the County's requirements of Broker/Dealers and submit Questionnaires, Certifications, and References to the Investment Officer(s) or their designees by the date and time specified by the Investment Committee, unless an extension is provided to all applicants, equally, by the Investment Committee.

The Investment Committee shall review, revise, reevaluate and adopt a list of Broker/Dealers that are authorized to engage in investment transactions with the County. This list shall be approved by Commissioners' Court annually during the second quarter of each fiscal year based on the following criteria:

1. Performance since the last review based on participation in competitive bids/offers documented on bid/offer sheets.

2. Activity level based on proposals presented since the last review; and

3. All qualification criteria considered initially in the selection of Broker/Dealers.

Removal from Approved List

The Investment Committee may recommend at any time that a Broker/Dealer be removed by the Commissioners' Court from the approved list for any of the following reasons:

1. Placing County funds at risk

2. Inactivity of the Broker/Dealer institution

3. Failure to maintain one or more of the criteria initially required in the Broker/Dealer selection process

4. Offering to sell investments not in compliance with this Investment Policy

5. Consistently causing an administrative burden by inaccurate documentation or untimely verifications of trade

6. Consistently offering securities at non-competitive yield

7. The approved qualified representative of the broker/dealer has;

   a) been disciplined by a self-regulatory organization (NASD or NYSE)
   b) settled with a customer for claims over $15,000
   c) been subjected to fines by their firm of over $2,500
   d) been held in violation of any securities act
   e) been convicted of a criminal offense

8. For any other reason designated by the Investment Committee

X. ARBITRAGE

The County will comply with all federal arbitrage regulations and bond covenants.

For compliance purposes, bond sale proceeds, investment proceeds, transferred proceeds, replacement proceeds, reserve and debt service funds may require diversification strategies by investment type, yield, and maturity.

Within the pooled bond funds and debt service funds portfolios, the proceeds of a single bond issue may be segregated and invested in a single eligible investment or group of eligible investments designed to facilitate arbitrage restrictions, arbitrage recordkeeping and calculation. Bond Funds, Debt Service Funds and related funds are to be kept separate from the general funds of the County until they are expended. The Investment Officer is charged with earning the highest possible yield on all bond funds without sacrificing this Investment Policy's emphasis upon Safety, Liquidity and Diversification.

The rules for the arbitrage rebate requirements stipulate that earnings from the investment of a tax-exempt issue, in excess of that earned at the yield on the issue (arbitrage), are paid (rebated) to the federal government. Investment of issue proceeds above the issue yield is allowable only during initial "temporary periods" as time periods specified by the rules. Issue proceeds may be invested without regard to yield only during this initial temporary period if certain tests are met. During the temporary period the Investment Officer will obtain the highest yield possible. The arbitrage yield restriction rules further require that after the expiration of an issue's temporary period investment of any remaining proceeds cannot exceed the yield on the issue. Following the temporary period, the Investment Officer must "yield restrict" remaining proceeds or else take corrective measures, one of which is to make a "yield reduction payment" to the federal government.

Investment of tax exempt proceeds, within the constraints of the arbitrage rebate and arbitrage yield restriction temporary period framework discussed above, requires that unexpended proceeds be invested at "fair market value" (FMV). The arbitrage regulations contain a number of safe harbor tests for establishing fair market value for certain types of investments.

The Investment Officer is responsible for investing bond proceeds and other related funds to ensure compliance with federal arbitrage regulations. These funds also include "escrow funds" containing proceeds of a refunding issue established for the purpose of paying principal and interest on a prior or refunded issue. Earnings on the proceeds of a refunding issue are also subject to yield restriction at the refunding issue yield. The Investment Officer will monitor these funds to ensure that the reinvestment of maturing securities actually takes place, that the targeted securities are available at the time of need, and that yield restriction is not violated.

XI. PORTFOLIO MONITORING, EVALUATION, AND COMPLIANCE

The Investment Officer will routinely monitor the contents of the portfolios, the available markets and the relative values of competing instruments, and will adjust the portfolios accordingly. Market Value shall be established from a reputable and independent source readily available to the Investment Officer. Alternatively, fair market value may be established from the firm which originally sold the security to the County.

As set forth in §2256.023 of the Government Code Investment Reports will be submitted to the Commissioners' Court quarterly. The reports will contain sufficient information to permit evaluation of the investment program. These reports will also address compliance with this Investment Policy.

XII. INVESTMENT ACCOUNTING

The accounting for investments shall be in conformity with Generally Accepted Accounting Principles (GAAP). The primary source of GAAP for counties is the Governmental Accounting Standards Board (GASB). The Financial Accounting Standards Board (FASB) is secondary, and other sources are acknowledged by the Statement on Auditing Standards No. 69 of the AICPA which is lower in the GAAP hierarchy.

Pursuant to V.T.C.A., Local Government Code §112.006, the County Auditor shall keep a set of investment accounting subsidiary records which fully support all investment transactions performed by the Investment Officer. The Investment Officer shall also maintain detailed investment accounting records.

Pursuant to V.T.C.A., Local Government Code §112.002, the County Auditor shall prescribe the system of accounting for investments consistent with GAAP.

XIII. AUDITS

Annual Independent Compliance Audit

Concurrent with the County's annual independent financial audit, a compliance audit of investments shall be performed to test management controls and adherence to this Investment Policy.

Internal Audit

Pursuant to V.T.C.A., Local Government Code §115.003, the County Auditor shall fully examine the condition of, or shall inspect and count, the cash held by the County Treasurer or held in a bank in which the County Treasurer has placed the cash for safekeeping. The County Auditor shall make sure that all balances to the credit of the various funds are actually on hand in cash and that none of the funds are invested in any manner except as authorized by law.

XIV. INVESTMENT POLICY REVIEW AND AMENDMENT PROCEDURES

Review Procedures

The Investment Committee shall review this Investment Policy and its exhibits at least annually and recommend revisions due to legislative actions and changing market conditions to the Commissioners' Court for its written approval.

Changes to Investment Policy

Revisions to this Investment Policy must be approved by the Commissioners' Court before they become effective.

XV. GENERAL CONSTRUCTIVE AND INTERPRETIVE PROVISIONS

General Provisions:

This policy shall be construed to give all of the authorization intended for the investment of all portfolios.

The Commissioners' Court shall resolve any questions about interpretation of any portion of this policy.

If there is any conflict between this policy and the state constitution or any state or federal law or any rule adopted in accordance therewith, this policy prevails to the greatest extent possible without violating such constitution, federal or state law or rule.

Words and phrases that have acquired a technical or particular meaning whether by definition in this policy or otherwise, are construed according to the acquired meaning.

Throughout this policy, headings for sections, subsections and portions of the text are inserted for convenience only. These headings are not to be construed to expand or limit the interpretation of the text that follows the heading.

When a period is stated in days, the days are construed as calendar days unless otherwise stated. If the last day of any period is a Saturday, Sunday or County holiday, their period is extended to include the next day that is not a Saturday, Sunday or County holiday.

Effective Date

The Galveston County Investment Policy is effective upon adoption by the Commissioners' Court.

Master Repurchase Agreement

September 1996 Version

Dated as of _____

Between: _____

and _____

1. Applicability

From time to time the parties hereto may enter into transactions in which one party ("Seller") agrees to transfer to the other ("Buyer") securities or other assets ("Securities") against the transfer of funds by Buyer, with a simultaneous agreement by Buyer to transfer to Seller such Securities at a date certain or on demand, against the transfer of funds by Seller. Each such transaction shall be referred to herein as a "Transaction" and, unless otherwise agreed in writing, shall be governed by this Agreement, including any supplemental terms or conditions contained in Annex I hereto and in any other annexes identified herein or therein as applicable hereunder.

2. Definitions

(a) "Act of Insolvency", with respect to any party, (i) the commencement by such party as debtor of any case or proceeding under any bankruptcy, insolvency, reorganization, liquidation, moratorium, dissolution, delinquency or similar law, or such party seeking the appointment or election of a receiver, conservator, trustee, custodian or similar official for such party or any substantial part of its property, or the convening of any meeting of creditors for purposes of commencing any such case or proceeding or seeking such an appointment or election, (ii) the commencement of any such case or proceeding against such party, or another seeking such an appointment or election, or the filing against a party of an application for a protective decree under the provisions of the Securities Investor Protection Act of 1970, which (A) is consented to or not timely contested by such party, (B) results in the entry of an order for relief, such an appointment or election, the issuance of such a protective decree or the entry of an order having a similar effect, or (C) is not dismissed within 15 days, (iii) the making by such party of a general assignment for the benefit of creditors, or (iv) the admission in writing by such party of such party's inability to pay such party's debts as they become due;

(b) "Additional Purchased Securities", Securities provided by Seller to Buyer pursuant to Paragraph 4(a) hereof;

(c) "Buyer's Margin Amount", with respect to any Transaction as of any date, the amount obtained by application of the Buyer's Margin Percentage to the Repurchase Price for such Transaction as of such date;

(d) "Buyer's Margin Percentage", with respect to any Transaction as of any date, a percentage (which may be equal to the Seller's Margin Percentage) agreed to by Buyer and Seller or, in the absence of any such agreement, the percentage obtained by dividing the Market Value of the Purchased Securities on the Purchase Date by the Purchase Price on the Purchase Date for such Transaction;

(e) "Confirmation", the meaning specified in Paragraph 3(b) hereof;

(f) "Income", with respect to any Security at any time, any principal thereof and all interest, dividends or other distributions thereon;

(g) "Margin Deficit", the meaning specified in Paragraph 4(a) hereof;

(h) "Margin Excess", the meaning specified in Paragraph 4(b) hereof;

(i) "Margin Notice Deadline", the time agreed to by the parties in the relevant Confirmation, Annex I hereto or otherwise as the deadline for giving notice requiring same-day satisfaction of margin maintenance obligations as provided in Paragraph 4 hereof (or, in the absence of any such agreement, the deadline for such purposes established in accordance with market practice);

(j) "Market Value", with respect to any Securities as of any date, the price for such Securities on such date obtained from a generally recognized source agreed to by the parties or the most recent closing bid quotation from such a source, plus accrued Income to the extent not included therein (other than any Income credited or transferred to, or applied to the obligations of, Seller pursuant to Paragraph 5 hereof) as of such date (unless contrary to market practice for such Securities);

(k) "Price Differential", with respect to any Transaction as of any date, the aggregate amount obtained by daily application of the Pricing Rate for such Transaction to the Purchase Price for such Transaction on a 360 day per year basis for the actual number of days during the period commencing on (and including) the Purchase Date for such Transaction and ending on (but excluding) the date of determination (reduced by any amount of such Price Differential previously paid by Seller to Buyer with respect to such Transaction);

(l) "Pricing Rate", the per annum percentage rate for determination of the Price Differential;

(m) "Prime Rate", the prime rate of U.S. commercial banks as published in The Wall Street Journal (or, if more than one such rate is published, the average of such rates);

(n) "Purchase Date", the date on which Purchased Securities are to be transferred by Seller to Buyer;

(o) "Purchase Price", (i) on the Purchase Date, the price at which Purchased Securities are transferred by Seller to Buyer, and (ii) thereafter, except where Buyer and Seller agree otherwise, such price increased by the amount of any cash transferred by Buyer to Seller pursuant to Paragraph 4(b) hereof and decreased by the amount of any cash transferred by Seller to Buyer pursuant to Paragraph 4(a) hereof or applied to reduce Seller's obligations under clause (ii) of Paragraph 5 hereof;

(p) "Purchased Securities", the Securities transferred by Seller to Buyer in a Transaction hereunder, and any Securities substituted therefor in accordance with Paragraph 9 hereof. The term "Purchased Securities" with respect to any Transaction at any time also shall include Additional Purchased Securities delivered pursuant to Paragraph 4(a) hereof and shall exclude Securities returned pursuant to Paragraph 4(b) hereof;

(q) "Repurchase Date", the date on which Seller is to repurchase the Purchased Securities from Buyer, including any date determined by application of the provisions of Paragraph 3(c) or 11 hereof;

(r) "Repurchase Price", the price at which Purchased Securities are to be transferred from Buyer to Seller upon termination of a Transaction, which will be determined in each case (including Transactions terminable upon demand) as the sum of the Purchase Price and the Price Differential as of the date of such determination;

(s) "Seller's Margin Amount", with respect to any Transaction as of any date, the amount obtained by application of the Seller's Margin Percentage to the Repurchase Price for such Transaction as of such date;

(t) "Seller's Margin Percentage", with respect to any Transaction as of any date, a percentage (which may be equal to the Buyer's Margin Percentage) agreed to by Buyer and Seller or, in the absence of any such agreement, the percentage obtained by dividing the Market Value of the Purchased Securities on the Purchase Date by the Purchase Price on the Purchase Date for such Transaction.

3. Initiation; Confirmation; Termination

(a) An agreement to enter into a Transaction may be made orally or in writing at the initiation of either Buyer or Seller. On the Purchase Date for the Transaction, the Purchased Securities shall be transferred to Buyer or its agent against the transfer of the Purchase Price to an account of Seller.

(b) Upon agreeing to enter into a Transaction hereunder, Buyer or Seller (or both), as shall be agreed, shall promptly deliver to the other party a written confirmation of each Transaction (a "Confirmation"). The Confirmation shall describe the Purchased Securities (including CUSIP number, if any), identify Buyer and Seller and set forth (i) the Purchase Date, (ii) the Purchase Price, (iii) the Repurchase Date, unless the Transaction is to be terminable on demand, (iv) the Pricing Rate or Repurchase Price applicable to the Transaction, and (v) any additional terms or conditions of the Transaction not inconsistent with this Agreement. The Confirmation, together with this Agreement, shall constitute conclusive evidence of the terms agreed between Buyer and Seller with respect to the Transaction to which the Confirmation relates, unless with

respect to the Confirmation specific objection is made promptly after receipt thereof. In the event of any conflict between the terms of such Confirmation and this Agreement, this Agreement shall prevail.

(c) In the case of Transactions terminable upon demand, such demand shall be made by Buyer or Seller, no later than such time as is customary in accordance with market practice, by telephone or otherwise on or prior to the business day on which such termination will be effective. On the date specified in such demand, or on the date fixed for termination in the case of Transactions having a fixed term, termination of the Transaction will be effected by transfer to Seller or its agent of the Purchased Securities and any Income in respect thereof received by Buyer (and not previously credited or transferred to, or applied to the obligations of, Seller pursuant to Paragraph 5 hereof) against the transfer of the Repurchase Price to an account of Buyer.

4. Margin Maintenance

(a) If at any time the aggregate Market Value of all Purchased Securities subject to all Transactions in which a particular party hereto is acting as Buyer is less than the aggregate Buyer's Margin Amount for all such Transactions (a "Margin Deficit"), then Buyer may by notice to Seller require Seller in such Transactions, at Seller's option, to transfer to Buyer cash or additional Securities reasonably acceptable to Buyer ("Additional Purchased Securities"), so that the cash and aggregate Market Value of the Purchased Securities, including any such Additional Purchased Securities, will thereupon equal or exceed such aggregate Buyer's Margin Amount (decreased by the amount of any Margin Deficit as of such date arising from any Transactions in which such Buyer is acting as Seller).

(b) If at any time the aggregate Market Value of all Purchased Securities subject to all Transactions in which a particular party hereto is acting as Seller exceeds the aggregate Seller's Margin Amount for all such Transactions at such time (a "Margin Excess"), then Seller may by notice to Buyer require Buyer in such Transactions, at Buyer's option, to transfer cash or Purchased Securities to Seller, so that the aggregate Market Value of the Purchased Securities, after deduction of any such cash or any Purchased Securities so transferred, will thereupon not exceed such aggregate Seller's Margin Amount (increased by the amount of any Margin Excess as of such date arising from any Transactions in which such Seller is acting as Buyer).

(c) If any notice is given by Buyer or Seller under subparagraph (a) or (b) of this Paragraph at or before the Margin Notice Deadline on any business day, the party receiving such notice shall transfer cash or Additional Purchased Securities as provided in such subparagraph no later than the close of business in the relevant market on such day. If any such notice is given after the Margin Notice Deadline, the party receiving such notice shall transfer such cash or Securities no later than the close of business in the relevant market on the next business day following such notice.

(d) Any cash transferred pursuant to this Paragraph shall be attributed to such Transactions as shall be agreed upon by Buyer and Seller.

(e) Seller and Buyer may agree, with respect to any or all Transactions hereunder, that the respective rights of Buyer or Seller (or both) under subparagraphs (a) and (b) of this Paragraph may be exercised only where a Margin Deficit or Margin Excess, as the case may be, exceeds a specified dollar amount or a specified percentage of the Repurchase Prices for such Transactions (which amount or percentage shall be agreed to by Buyer and Seller prior to entering into any such Transactions).

(f) Seller and Buyer may agree, with respect to any or all Transactions hereunder, that the respective rights of Buyer and Seller under subparagraphs (a) and (b) of this Paragraph to require the elimination of a Margin Deficit or a Margin Excess, as the case may be, may be exercised whenever such a Margin Deficit or Margin Excess exists with respect to any single Transaction hereunder (calculated without regard to any other Transaction outstanding under this Agreement).

5. Income Payments

Seller shall be entitled to receive an amount equal to all Income paid or distributed on or in respect of the Securities that is not otherwise received by Seller, to the full extent it would be so entitled if the Securities had not been sold to Buyer. Buyer shall, as the parties may agree with respect to any Transaction (or, in the absence of any such agreement, as Buyer shall reasonably determine in its discretion), on the date such Income is paid or distributed either (i) transfer to or credit to the account of Seller such Income with respect to any Purchased Securities subject to such Transaction or (ii) with respect to Income paid in cash, apply the Income payment or payments to reduce the amount, if any, to be transferred to Buyer by Seller upon termination of such Transaction. Buyer shall not be obligated to take any action pursuant to the preceding sentence (A) to the extent that such action would result in the creation of a Margin Deficit, unless prior thereto or simultaneously therewith Seller transfers to Buyer cash or Additional Purchased Securities sufficient to eliminate such Margin Deficit, or (B) if an Event of Default with respect to Seller has occurred and is then continuing at the time such Income is paid or distributed.

6. Security Interest

Although the parties intend that all Transactions hereunder be sales and purchases and not loans, in the event any such Transactions are deemed to be loans, Seller shall be deemed to have pledged to Buyer as security for the performance by Seller of its obligations under each such Transaction, and shall be deemed to have granted to Buyer a security interest in, all of the Purchased Securities with respect to all Transactions hereunder and all Income thereon and other proceeds thereof.

7. Payment and Transfer

Unless otherwise mutually agreed, all transfers of funds hereunder shall be in immediately available funds. All Securities transferred by one party hereto to the other party (i) shall be in suitable form for transfer or shall be accompanied by duly executed instruments of transfer or assignment in blank and such other documentation as the party receiving possession may reasonably request, (ii) shall be transferred on the book-entry system of a Federal Reserve Bank, or (iii) shall be transferred by any other method mutually acceptable to Seller and Buyer.

8. Segregation of Purchased Securities

To the extent required by applicable law, all Purchased Securities in the possession of Seller shall be segregated from other securities in its possession and shall be identified as subject to this Agreement. Segregation may be accomplished by appropriate identification on the books and records of the holder, including a financial or securities intermediary or a clearing corporation. All of Seller's interest in the Purchased Securities shall pass to Buyer on the Purchase Date and, unless otherwise agreed by Buyer and Seller, nothing in this Agreement shall preclude Buyer from engaging in repurchase transactions with the Purchased Securities or otherwise selling, transferring, pledging or hypothecating the Purchased Securities, but no such transaction shall relieve Buyer of its obligations to transfer Purchased Securities to Seller pursuant to Paragraph 3, 4 or 11 hereof, or of Buyer's obligation to credit or pay Income to, or apply Income to the obligations of, Seller pursuant to Paragraph 5 hereof.

Required Disclosure for Transactions in Which the Seller Retains Custody of the Purchased Securities

Seller is not permitted to substitute other securities for those subject to this Agreement and therefore must keep Buyer's securities segregated at all times, unless in this Agreement Buyer grants Seller the right to substitute other securities. If Buyer grants the right to substitute, this means that Buyer's securities will likely be commingled with Seller's own securities during the trading day. Buyer is advised that, during any trading day that Buyer's securities are commingled with Seller's securities, they [will]* [may]** be subject to liens granted by Seller to [its clearing bank]* [third parties]** and may be used by Seller for deliveries on other securities transactions. Whenever the securities are commingled, Seller's ability to resegregate substitute securities for Buyer will be subject to Seller's ability to satisfy [the clearing]* [any]** lien or to obtain substitute securities.

* Language to be used under 17 C.F.R. ß403.4(e) if Seller is a government securities broker or dealer other than a financial institution.

** Language to be used under 17 C.F.R. ß403.5(d) if Seller is a financial institution.

9. Substitution

(a) Seller may, subject to agreement with and acceptance by Buyer, substitute other Securities for any Purchased Securities. Such substitution shall be made by transfer to Buyer of such other Securities and transfer to Seller of such Purchased Securities. After substitution, the substituted Securities shall be deemed to be Purchased Securities.

(b) In Transactions in which Seller retains custody of Purchased Securities, the parties expressly agree that Buyer shall be deemed, for purposes of subparagraph (a) of this Paragraph, to have agreed to and accepted in this Agreement substitution by Seller of other Securities for Purchased Securities; provided, however, that such other Securities shall have a Market Value at least equal to the Market Value of the Purchased Securities for which they are substituted.

10. Representations

Each of Buyer and Seller represents and warrants to the other that (i) it is duly authorized to execute and deliver this Agreement, to enter into Transactions contemplated hereunder and to perform its obligations hereunder and has taken all necessary action to authorize such execution, delivery and performance, (ii) it will engage in such Transactions as principal (or, if agreed in writing, in the form of an annex hereto or otherwise, in advance of any Transaction by the other party hereto, as agent for a disclosed principal), (iii) the person signing this Agreement on its behalf is duly authorized to do so on its behalf (or on behalf of any such disclosed principal), (iv) it has obtained all authorizations of any governmental body required in connection with this Agreement and the Transactions hereunder and such authorizations are in full force and effect and (v) the execution, delivery and performance of this Agreement and the Transactions hereunder will not violate any law, ordinance, charter, bylaw or rule applicable to it or any agreement by which it is bound or by which any of its assets are affected. On the Purchase Date for any Transaction Buyer and Seller shall each be deemed to repeat all the foregoing representations made by it.

11. Events of Default

In the event that (i) Seller fails to transfer or Buyer fails to purchase Purchased Securities upon the applicable Purchase Date, (ii) Seller fails to repurchase or Buyer fails to transfer Purchased Securities upon the applicable Repurchase Date, (iii) Seller or Buyer fails to comply with Paragraph 4 hereof, (iv) Buyer fails, after one business day's notice, to comply with Paragraph 5 hereof, (v) an Act of Insolvency occurs with respect to Seller or Buyer, (vi) any representation made by Seller or Buyer shall have been incorrect or untrue in any material respect when made or repeated or deemed to have been made or repeated, or (vii) Seller or Buyer shall admit to the other its inability to, or its intention not to, perform any of its obligations hereunder (each an "Event of Default"):

(a) The nondefaulting party may, at its option (which option shall be deemed to have been exercised immediately upon the occurrence of an Act of Insolvency), declare an Event of Default to have occurred hereunder and, upon the exercise or deemed exercise of such option, the Repurchase Date for each Transaction hereunder shall, if it has not already occurred, be deemed immediately to occur (except that, in the event that the Purchase Date for any Transaction has not yet occurred as of the date of such exercise or deemed exercise, such Transaction shall be deemed immediately canceled). The nondefaulting party shall (except upon the occurrence of an Act of Insolvency) give notice to the defaulting party of the exercise of such option as promptly as practicable.

(b) In all Transactions in which the defaulting party is acting as Seller, if the nondefaulting party exercises or is deemed to have exercised the option referred to in subparagraph (a) of this Paragraph, (i) the defaulting party's obligations in such Transactions to repurchase all Purchased Securities, at the Repurchase Price therefor on the Repurchase Date determined in accordance with subparagraph (a) of this Paragraph, shall thereupon become immediately due and payable, (ii) all Income paid after such exercise or deemed exercise shall be retained by the nondefaulting party and applied to the aggregate unpaid Repurchase Prices and any other amounts owing by the defaulting party hereunder, and (iii) the defaulting party shall immediately deliver to the nondefaulting party any Purchased Securities subject to such Transactions then in the defaulting party's possession or control.

(c) In all Transactions in which the defaulting party is acting as Buyer, upon tender by the nondefaulting party of payment of the aggregate Repurchase Prices for all such Transactions, all right, title and interest in and entitlement to all Purchased Securities subject to such Transactions shall be deemed transferred to the nondefaulting party, and the defaulting party shall deliver all such Purchased Securities to the nondefaulting party.

(d) If the nondefaulting party exercises or is deemed to have exercised the option referred to in subparagraph (a) of this Paragraph, the nondefaulting party, without prior notice to the defaulting party, may:

(i) as to Transactions in which the defaulting party is acting as Seller, (A) immediately sell, in a recognized market (or otherwise in a commercially reasonable manner) at such price or prices as the nondefaulting party may reasonably deem satisfactory, any or all Purchased Securities subject to such Transactions and apply the proceeds thereof to the aggregate unpaid Repurchase Prices and any other amounts owing by the defaulting party hereunder or (B) in its sole discretion elect, in lieu of selling all or a portion of such Purchased Securities, to give the defaulting party credit for such Purchased Securities in an amount equal to the price therefor on such date, obtained from a generally recognized source or the most recent closing bid quotation from such a source, against the aggregate unpaid Repurchase Prices and any other amounts owing by the defaulting party hereunder; and

(ii) as to Transactions in which the defaulting party is acting as Buyer, (A) immediately purchase, in a recognized market (or otherwise in a commercially reasonable manner) at such price or prices as the nondefaulting party may reasonably deem satisfactory, securities ("Replacement Securities") of the same class and amount as any Purchased Securities that are not delivered by the defaulting party to the nondefaulting party as required hereunder or (B) in its sole discretion elect, in lieu of purchasing Replacement Securities, to be deemed to have purchased Replacement Securities at the price therefor on such date, obtained from a generally recognized source or the most recent closing offer quotation from such a source.

Unless otherwise provided in Annex I, the parties acknowledge and agree that (1) the Securities subject to any Transaction hereunder are instruments traded in a recognized market, (2) in the absence of a generally recognized source for prices or bid or offer quotations for any Security, the nondefaulting party may establish the source therefor in its sole discretion and (3) all prices, bids and offers shall be determined together with accrued Income (except to the extent contrary to market practice with respect to the relevant Securities).

(e) As to Transactions in which the defaulting party is acting as Buyer, the defaulting party shall be liable to the nondefaulting party for any excess of the price paid (or deemed paid) by the nondefaulting party for Replacement Securities over the Repurchase Price for the Purchased Securities replaced thereby and for any amounts payable by the defaulting party under Paragraph 5 hereof or otherwise hereunder.

(f) For purposes of this Paragraph 11, the Repurchase Price for each Transaction hereunder in respect of which the defaulting party is acting as Buyer shall not increase above the

amount of such Repurchase Price for such Transaction determined as of the date of the exercise or deemed exercise by the nondefaulting party of the option referred to in subparagraph (a) of this Paragraph.

(g) The defaulting party shall be liable to the nondefaulting party for (i) the amount of all reasonable legal or other expenses incurred by the nondefaulting party in connection with or as a result of an Event of Default, (ii) damages in an amount equal to the cost (including all fees, expenses and commissions) of entering into replacement transactions and entering into or terminating hedge transactions in connection with or as a result of an Event of Default, and (iii) any other loss, damage, cost or expense directly arising or resulting from the occurrence of an Event of Default in respect of a Transaction.

(h) To the extent permitted by applicable law, the defaulting party shall be liable to the nondefaulting party for interest on any amounts owing by the defaulting party hereunder, from the date the defaulting party becomes liable for such amounts hereunder until such amounts are (i) paid in full by the defaulting party or (ii) satisfied in full by the exercise of the nondefaulting party's rights hereunder. Interest on any sum payable by the defaulting party to the nondefaulting party under this Paragraph 11(h) shall be at a rate equal to the greater of the Pricing Rate for the relevant Transaction or the Prime Rate.

(i) The nondefaulting party shall have, in addition to its rights hereunder, any rights otherwise available to it under any other agreement or applicable law.

12. Single Agreement

Buyer and Seller acknowledge that, and have entered hereinto and will enter into each Transaction hereunder in consideration of and in reliance upon the fact that, all Transactions hereunder constitute a single business and contractual relationship and have been made in consideration of each other. Accordingly, each of Buyer and Seller agrees (i) to perform all of its obligations in respect of each Transaction hereunder, and that a default in the performance of any such obligations shall constitute a default by it in respect of all Transactions hereunder, (ii) that each of them shall be entitled to set off claims and apply property held by them in respect of any Transaction against obligations owing to them in respect of any other Transactions hereunder and (iii) that payments, deliveries and other transfers made by either of them in respect of any Transaction shall be deemed to have been made in consideration of payments, deliveries and other transfers in respect of any other Transactions hereunder, and the obligations to make any such payments, deliveries and other transfers may be applied against each other and netted.

13. Notices and Other Communications

Any and all notices, statements, demands or other communications hereunder may be given by a party to the other by mail, facsimile, telegraph, messenger or otherwise to the address specified in Annex II hereto, or so sent to such party at any other place specified in a notice of change of address hereafter received by the other. All notices, demands and requests hereunder may be made orally, to be confirmed promptly in writing, or by other communication as specified in the preceding sentence.

14. Entire Agreement; Severability

This Agreement shall supersede any existing agreements between the parties containing general terms and conditions for repurchase transactions. Each provision and agreement herein shall be treated as separate and independent from any other provision or agreement herein and shall be enforceable notwithstanding the unenforceability of any such other provision or agreement.

15. Non-assignability; Termination

(a) The rights and obligations of the parties under this Agreement and under any Transaction shall not be assigned by either party without the prior written consent of the other party, and any such assignment without the prior written consent of the other party shall be null and void. Subject to the foregoing, this Agreement and any Transactions shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. This Agreement may be terminated by either party upon giving written notice to the other, except that this Agreement shall, notwithstanding such notice, remain applicable to any Transactions then outstanding.

(b) Subparagraph (a) of this Paragraph 15 shall not preclude a party from assigning, charging or otherwise dealing with all or any part of its interest in any sum payable to it under Paragraph 11 hereof.

16. Governing Law

This Agreement shall be governed by the laws of the State of New York without giving effect to the conflict of law principles thereof.

17. No Waivers, Etc.

No express or implied waiver of any Event of Default by either party shall constitute a waiver of any other Event of Default and no exercise of any remedy hereunder by any party shall constitute a waiver of its right to exercise any other remedy hereunder. No modification or waiver of any provision of this Agreement and no consent by any party to a departure herefrom shall be effective unless and until such shall be in writing and duly executed by both of the parties hereto. Without limitation on any of the foregoing, the failure to give a notice pursuant to Paragraph 4(a) or 4(b) hereof will not constitute a waiver of any right to do so at a later date.

18. Use of Employee Plan Assets

(a) If assets of an employee benefit plan subject to any provision of the Employee Retirement Income Security Act of 1974 ("ERISA") are intended to be used by either party hereto (the "Plan Party") in a Transaction, the Plan Party shall so notify the other party prior to the Transaction. The Plan Party shall represent in writing to the other party that the Transaction does not constitute a prohibited transaction under ERISA or is otherwise exempt therefrom, and the other party may proceed in reliance thereon but shall not be required so to proceed.

(b) Subject to the last sentence of subparagraph (a) of this Paragraph, any such Transaction shall proceed only if Seller furnishes or has furnished to Buyer its most recent available audited statement of its financial condition and its most recent subsequent unaudited statement of its financial condition.

(c) By entering into a Transaction pursuant to this Paragraph, Seller shall be deemed (i) to represent to Buyer that since the date of Seller's latest such financial statements, there has been no material adverse change in Seller's financial condition which Seller has not disclosed to Buyer, and (ii) to agree to provide Buyer with future audited and unaudited statements of its financial condition as they are issued, so long as it is a Seller in any outstanding Transaction involving a Plan Party.

19. Intent

(a) The parties recognize that each Transaction is a "repurchase agreement" as that term is defined in Section 101 of Title 11 of the United States Code, as amended (except insofar as the type of Securities subject to such Transaction or the term of such Transaction would render such definition inapplicable), and a "securities contract" as that term is defined in Section 741 of Title 11 of the United States Code, as amended (except insofar as the type of assets subject to such Transaction would render such definition inapplicable).

(b) It is understood that either party's right to liquidate Securities delivered to it in connection with Transactions hereunder or to exercise any other remedies pursuant to Paragraph 11 hereof is a contractual right to liquidate such Transaction as described in Sections 555 and 559 of Title 11 of the United States Code, as amended.

(c) The parties agree and acknowledge that if a party hereto is an "insured depository institution," as such term is defined in the Federal Deposit Insurance Act, as amended ("FDIA"), then each Transaction hereunder is a "qualified financial contract," as that term is defined in FDIA and any rules, orders or policy statements thereunder (except insofar as the type of assets subject to such Transaction would render such definition inapplicable).

(d) It is understood that this Agreement constitutes a "netting contract" as defined in and subject to Title IV of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") and each payment entitlement and payment obligation under any Transaction hereunder shall constitute a "covered contractual payment entitlement" or "covered contractual payment obligation", respectively, as defined in and subject to FDICIA (except insofar as one or both of the parties is not a "financial institution" as that term is defined in FDICIA).

20. Disclosure Relating to Certain Federal Protections

The parties acknowledge that they have been advised that:

(a) in the case of Transactions in which one of the parties is a broker or dealer registered with the Securities and Exchange Commission ("SEC") under Section 15 of the Securities Exchange Act of 1934 ("1934 Act"), the Securities Investor Protection Corporation has

taken the position that the provisions of the Securities Investor Protection Act of 1970 ("SIPA") do not protect the other party with respect to any Transaction hereunder;

(b) in the case of Transactions in which one of the parties is a government securities broker or a government securities dealer registered with the SEC under Section 15C of the 1934 Act, SIPA will not provide protection to the other party with respect to any Transaction hereunder; and

(c) in the case of Transactions in which one of the parties is a financial institution, funds held by the financial institution pursuant to a Transaction hereunder are not a deposit and therefore are not insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, as applicable.

[Name of Party]	[Name of Party]
By: _____	By: _____
Title: _____	Title: _____
Date: _____	Date: _____

Annex I

Supplemental Terms and Conditions

This Annex I forms a part of the Master Repurchase Agreement dated as of _____, ____ (the "Agreement") between _____ and _____. Capitalized terms used but not defined in this Annex I shall have the meanings ascribed to them in the Agreement.

1. Other Applicable Annexes. In addition to this Annex I and Annex II, the following Annexes and any Schedules thereto shall form a part of this Agreement and shall be applicable thereunder:

   [Annex III (International Transactions)]

   [Annex IV (Party Acting as Agent)]

   [Annex V (Margin for Forward Transactions)]

   [Annex VI (Buy/Sell Back Transactions)]

   [Annex VII (Transactions Involving Registered Investment Companies)]

Annex II

Names and Addresses for Communications Between Parties

Annex III

International Transactions

This Annex III (including any Schedules hereto) forms a part of the Master Repurchase Agreement dated as of _____ (the "Agreement") between _____ and _____. Capitalized terms used but not defined in this Annex III shall have the meanings ascribed to them in the Agreement.

1. **Definitions.** For purposes of the Agreement and this Annex III:
(a) The following terms shall have the following meanings:

"Base Currency", United States dollars or such other currency as Buyer and Seller may agree in the Confirmation with respect to any International Transaction or otherwise in writing;

"Business Day" or "business day":

(i) in relation to any International Transaction which (A) involves an International Security and (B) is to be settled through CEDEL or Euroclear, a day on which CEDEL or, as the case may be, Euroclear is open to settle business in the currency in which the Purchase Price and the Repurchase Price are denominated;

(ii) in relation to any International Transaction which (A) involves an International Security and (B) is to be settled through a settlement system other than CEDEL or Euroclear, a day on which that settlement system is open to settle such International Transaction;

(iii) in relation to any International Transaction which involves a delivery of Securities not falling within (i) or (ii) above, a day on which banks are open for business in the place where delivery of the relevant Securities is to be effected; and

(iv) in relation to any International Transaction which involves an obligation to make a payment not falling within (i) or (ii) above, a day other than a Saturday or Sunday on which banks are open for business in the principal financial center of the country of which the currency in which the payment is denominated is the official currency and, if different, in the place where any account designated by the parties for the making or receipt of the payment is situated (or, in the case of ECU, a day on which ECU clearing operates);

"CEDEL", CEDEL Bank, société anonyme;

"Contractual Currency", the currency in which the International Securities subject to any International Transaction are denominated or such other currency as may be specified in the Confirmation with respect to any International Transaction;

"Euroclear", Morgan Guaranty Trust Company of New York, Brussels Branch, as operator of the Euroclear System;

"International Security", any Security that (i) is denominated in a currency other than United States dollars or (ii) is capable of being cleared through a clearing facility outside the United States or (iii) is issued by an issuer organized under the laws of a jurisdiction other than the United States (or any political subdivision thereof);

"International Transaction", any Transaction involving (i) an International Security or (ii) a party organized under the laws of a jurisdiction other than the United States (or any political subdivision thereof) or having its principal place of business outside the United States or (iii) a branch or office outside the United States designated in Annex I by a party organized under the laws of the United States (or any political subdivision thereof) as an office through which that party may act;

"LIBOR", in relation to any sum in any currency, the offered rate for deposits for such sum in such currency for a period of three months which appears on the Reuters Screen LIBO page as of 11:00 A.M., London time, on the date on which it is to be determined (or, if more than one such rate appears, the arithmetic mean of such rates);

"Spot Rate", where an amount in one currency is to be converted into a second currency on any date, the spot rate of exchange of a comparable amount quoted by a major money-center bank in the New York interbank market, as agreed by Buyer and Seller, for the sale by such bank of such second currency against a purchase by it of such first currency.

(b) Notwithstanding Paragraph 2 of the Agreement, the term "Prime Rate" shall mean, with respect to any International Transaction, LIBOR plus a spread, as may be specified in the Confirmation with respect to any International Transaction or otherwise in writing.

2. **Manner of Transfer.** All transfers of International Securities (i) shall be in suitable form for transfer and accompanied by duly executed instruments of transfer or assignment in blank (where required for transfer) and such other documentation as the transferee may reasonably request, or (ii) shall be transferred through the book-entry system of Euroclear or CEDEL, or (iii) shall be transferred through any other agreed securities clearing system or (iv) shall be transferred by any other method mutually acceptable to Seller and Buyer.

3. **Contractual Currency.**
   (a) Unless otherwise mutually agreed, all funds transferred in respect of the Purchase Price or the Repurchase Price in any International Transaction shall be in the Contractual Currency.

   (b) Notwithstanding subparagraph (a) of this Paragraph 3, the payee of any payment may, at its option, accept tender thereof in any other currency; provided, however, that, to the extent permitted by applicable law, the obligation of the payor to make such payment will be discharged only to the extent of the amount of the Contractual Currency that such payee may, consistent with normal banking procedures, purchase with such other currency (after deduction of any premium and costs of exchange) for delivery within the customary delivery period for spot transactions in respect of the relevant currency.

(c) If for any reason the amount in the Contractual Currency so received, including amounts received after conversion of any recovery under any judgment or order expressed in a currency other than the Contractual Currency, falls short of the amount in the Contractual Currency due in respect of the Agreement, the party required to make the payment shall (unless an Event of Default has occurred and such party is the nondefaulting party) as a separate and independent obligation (which shall not merge with any judgment or any payment or any partial payment or enforcement of payment) and to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall.

(d) If for any reason the amount of the Contractual Currency received by one party hereto exceeds the amount in the Contractual Currency due such party in respect of the Agreement, then (unless an Event of Default has occurred and such party is the nondefaulting party) the party receiving the payment shall refund promptly the amount of such excess.

4. **Notices.** Any and all notices, statements, demands or other communications with respect to International Transactions shall be given in accordance with Paragraph 13 of the Agreement and shall be in the English language.

5. **Taxes.**

(a) Transfer taxes, stamp taxes and all similar costs with respect to the transfer of Securities shall be paid by Seller.

(b) (i) Unless otherwise agreed, all money payable by one party (the "Payor") to the other (the "Payee") in respect of any International Transaction shall be paid free and clear of, and without withholding or deduction for, any taxes or duties of whatsoever nature imposed, levied, collected, withheld or assessed by any authority having power to tax (a "Tax"), unless the withholding or deduction of such Tax is required by law. In that event, unless otherwise agreed, Payor shall pay such additional amounts as will result in the net amounts receivable by Payee (after taking account of such withholding or deduction) being equal to such amounts as would have been received by Payee had no such Tax been required to be withheld or deducted; provided that for purposes of Paragraphs 5 and 6 the term "Tax" shall not include any Tax that would not have been imposed but for the existence of any present or former connection between Payee and the jurisdiction imposing such Tax other than the mere receipt of payment from Payor or the performance of Payee's obligations under an International Transaction. The parties acknowledge and agree, for the avoidance of doubt, that the amount of Income required to be transferred, credited or applied by Buyer for the benefit of Seller under Paragraph 5 of the Agreement shall be determined without taking into account any Tax required to be withheld or deducted from such Income, unless otherwise agreed.

(ii) In the case of any Tax required to be withheld or deducted from any money payable to a party hereto acting as Payee by the other party hereto acting as Payor, Payee agrees to deliver to Payor (or, if applicable, to the authority imposing the Tax) any certificate or document reasonably requested by Payor that would entitle Payee to an exemption from, or reduction in the rate of, withholding or deduction of Tax from money payable by Payor to Payee.

(iii) Each party hereto agrees to notify the other party of any circumstance known or reasonably known to it (other than a Change of Tax Law, as defined in Paragraph 6 hereof) that causes a certificate or document provided by it pursuant to subparagraph (b)(ii) of this Paragraph to fail to be true.

(iv) Notwithstanding subparagraph (b)(i) of this Paragraph, no additional amounts shall be payable by Payor to Payee in respect of an International Transaction to the extent that such additional amounts are payable as a result of a failure by Payee to comply with its obligations under subparagraph (b)(ii) or (b)(iii) of this Paragraph with respect to such International Transaction.

6. Tax Event.

(a) This Paragraph 6 shall apply if either party notifies the other, with respect to a Tax required to be collected by withholding or deduction, that —

(i) any action taken by a taxing authority or brought in a court of competent jurisdiction after the date an International Transaction is entered into, regardless of whether such action is taken or brought with respect to a party to the Agreement; or

(ii) a change in the fiscal or regulatory regime after the date an International Transaction is entered into,

(each, a "Change of Tax Law") has or will, in the notifying party's reasonable opinion, have a material adverse effect on such party in the context of an International Transaction.

(b) If so requested by the other party, the notifying party will furnish the other party with an opinion of a suitably qualified adviser that an event referred to in subparagraph (a)(i) or (a)(ii) of this Paragraph 6 has occurred and affects the notifying party.

(c) Where this Paragraph 6 applies, the party giving the notice referred to in subparagraph (a) above may, subject to subparagraph (d) below, terminate the International Transaction effective from a date specified in the notice, not being earlier (unless so agreed by the other party) than 30 days after the date of such notice, by nominating such date as the Repurchase Date.

(d) If the party receiving the notice referred to in subparagraph (a) of this Paragraph 6 so elects, it may override such notice by giving a counter-notice to the other party. If a counter-notice is given, the party which gives such counter-notice will be deemed to have agreed to indemnify the other party against the adverse effect referred to in subparagraph (a) of this Paragraph 6 so far as it relates to the relevant International Transaction and the original Repurchase Date will continue to apply.

(e) Where an International Transaction is terminated as described in this Paragraph 6, the party which has given the notice to terminate shall indemnify the other party against any reasonable legal and other professional expenses incurred by the other party by reason of the termination, but the other party may not claim any sum constituting consequential loss or damage in respect of a termination in accordance with this Paragraph 6.

(f) This Paragraph 6 is without prejudice to Paragraph 5 of this Annex III; but an obligation to pay additional amounts pursuant to Paragraph 5 of this Annex III may, where appropriate, be a circumstance which causes this Paragraph 6 to apply.

7. **Margin.** In the calculation of "Margin Deficit" and "Margin Excess" pursuant to Paragraph 4 of the Agreement, all sums not denominated in the Base Currency shall be deemed to be converted into the Base Currency at the Spot Rate on the date of such calculation.

8. **Events of Default.**

(a) In addition to the Events of Default set forth in Paragraph 11 of the Agreement, it shall be an additional "Event of Default" if either party fails, after one business day's notice, to perform any covenant or obligation required to be performed by it under this Annex III, including, without limitation, the payment of taxes or additional amounts as required by Paragraph 5 of this Annex III.

(b) In addition to the other rights of a nondefaulting party under Paragraph 11 of the Agreement, following an Event of Default, the nondefaulting party may, at any time at its option, effect the conversion of any currency into a different currency of its choice at the Spot Rate on the date of the exercise of such option and offset obligations of the defaulting party denominated in different currencies against each other.

Schedule III.A

International Transactions Relating to [Relevant Country]

This Schedule III.A forms a part of Annex III to the Master Repurchase Agreement dated as of _____ , ____ (the "Agreement") between _____ and _____ . Capitalized terms used but not defined in this Schedule III.A shall have the meanings ascribed to them in Annex III.

[Insert provisions applicable to relevant country.]

Annex IV

Party Acting as Agent

This Annex IV forms a part of the Master Repurchase Agreement dated as of _____, ____ (the "Agreement") between _____ and _____. This Annex IV sets forth the terms and conditions governing all transactions in which a party selling securities or buying securities, as the case may be ("Agent"), in a Transaction is acting as agent for one or more third parties (each, a "Principal"). Capitalized terms used but not defined in this Annex IV shall have the meanings ascribed to them in the Agreement.

1. **Additional Representations.** In addition to the representations set forth in Paragraph 10 of the Agreement, Agent hereby makes the following representations, which shall continue during the term of any Transaction: Principal has duly authorized Agent to execute and deliver the Agreement on its behalf, has the power to so authorize Agent and to enter into the Transactions contemplated by the Agreement and to perform the obligations of Seller or Buyer, as the case may be, under such Transactions, and has taken all necessary action to authorize such execution and delivery by Agent and such performance by it.

2. **Identification of Principals.** Agent agrees (a) to provide the other party, prior to the date on which the parties agree to enter into any Transaction under the Agreement, with a written list of Principals for which it intends to act as Agent (which list may be amended in writing from time to time with the consent of the other party), and (b) to provide the other party, before the close of business on the next business day after orally agreeing to enter into a Transaction, with notice of the specific Principal or Principals for whom it is acting in connection with such Transaction. If (i) Agent fails to identify such Principal or Principals prior to the close of business on such next business day or (ii) the other party shall determine in its sole discretion that any Principal or Principals identified by Agent are not acceptable to it, the other party may reject and rescind any Transaction with such Principal or Principals, return to Agent any Purchased Securities or portion of the Purchase Price, as the case may be, previously transferred to the other party and refuse any further performance under such Transaction, and Agent shall immediately return to the other party any portion of the Purchase Price or Purchased Securities, as the case may be, previously transferred to Agent in connection with such Transaction; provided, however, that (A) the other party shall promptly (and in any event within one business day) notify Agent of its determination to reject and rescind such Transaction and (B) to the extent that any performance was rendered by any party under any Transaction rejected by the other party, such party shall remain entitled to any Price Differential or other amounts that would have been payable to it with respect to such performance if such Transaction had not been rejected. The other party acknowledges that Agent shall not have any obligation to provide it with confidential information regarding the financial status of its Principals; Agent agrees, however, that it will assist the other party in obtaining from Agent's Principals such information regarding the financial status of such Principals as the other party may reasonably request.

3. **Limitation of Agent's Liability.** The parties expressly acknowledge that if the representations of Agent under the Agreement, including this Annex IV, are true and correct in all material respects during the term of any Transaction and Agent otherwise complies with the provi-

sions of this Annex IV, then (a) Agent's obligations under the Agreement shall not include a guarantee of performance by its Principal or Principals and (b) the other party's remedies shall not include a right of setoff in respect of rights or obligations, if any, of Agent arising in other transactions in which Agent is acting as principal.

4. **Multiple Principals.**

(a) In the event that Agent proposes to act for more than one Principal hereunder, Agent and the other party shall elect whether (i) to treat Transactions under the Agreement as transactions entered into on behalf of separate Principals or (ii) to aggregate such Transactions as if they were transactions by a single Principal. Failure to make such an election in writing shall be deemed an election to treat Transactions under the Agreement as transactions on behalf of separate Principals.

(b) In the event that Agent and the other party elect (or are deemed to elect) to treat Transactions under the Agreement as transactions on behalf of separate Principals, the parties agree that (i) Agent will provide the other party, together with the notice described in Paragraph 2(b) of this Annex IV, notice specifying the portion of each Transaction allocable to the account of each of the Principals for which it is acting (to the extent that any such Transaction is allocable to the account of more than one Principal); (ii) the portion of any individual Transaction allocable to each Principal shall be deemed a separate Transaction under the Agreement; (iii) the margin maintenance obligations of Buyer and Seller under Paragraph 4 of the Agreement shall be determined on a Transaction-by-Transaction basis (unless the parties agree to determine such obligations on a Principal-by-Principal basis); and (iv) Buyer's and Seller's remedies under the Agreement upon the occurrence of an Event of Default shall be determined as if Agent had entered into a separate Agreement with the other party on behalf of each of its Principals.

(c) In the event that Agent and the other party elect to treat Transactions under the Agreement as if they were transactions by a single Principal, the parties agree that (i) Agent's notice under Paragraph 2(b) of this Annex IV need only identify the names of its Principals but not the portion of each Transaction allocable to each Principal's account; (ii) the margin maintenance obligations of Buyer and Seller under Paragraph 4 of the Agreement shall, subject to any greater requirement imposed by applicable law, be determined on an aggregate basis for all Transactions entered into by Agent on behalf of any Principal; and (iii) Buyer's and Seller's remedies upon the occurrence of an Event of Default shall be determined as if all Principals were a single Seller or Buyer, as the case may be.

(d) Notwithstanding any other provision of the Agreement (including, without limitation, this Annex IV), the parties agree that any Transactions by Agent on behalf of an employee benefit plan under ERISA shall be treated as Transactions on behalf of separate Principals in accordance with Paragraph 4(b) of this Annex IV (and all margin maintenance obligations of the parties shall be determined on a Transaction-by-Transaction basis).

5. **Interpretation of Terms.** All references to "Seller" or "Buyer", as the case may be, in the Agreement shall, subject to the provisions of this Annex IV (including, among other provisions, the limitations on Agent's liability in Paragraph 3 of this Annex IV), be construed to

In those cases where the delivery of a certificate or other document by the Payee would reduce or eliminate the rate of withholding tax, the Payee is required to deliver that document or certificate upon reasonable request by the Payor and to notify the Payor if the certificate or document ceases to be true for reasons other than a change in tax law. The Payor is not required to gross up to the extent that the Payee fails to comply with those requirements. Paragraph 5 thus places the risk of withholding tax upon the Payor in the first instance, but shifts that risk to the Payee to the extent that the imposition of withholding tax results from a failure by the Payee to take reasonable steps to reduce or eliminate the tax, including advising the Payor of facts likely to be within the sole knowledge of the Payee. It is anticipated that the parties will agree to alternative arrangements should they so desire.

Paragraph 5 also provides a general rule that the amount required to be paid or credited to Seller by Buyer under Paragraph 5 of the Agreement (relating to Income payments) is equal to the amount of Income required to be paid under the terms of a Security in the absence of withholding tax, regardless of whether either party receives or would receive a lesser amount due to a deduction or withholding made on the underlying Income payments by the issuer of the Security. Alternative approaches were considered, including a rule limiting the amount that Buyer is required to pay or credit to Seller to the amount of after-tax Income that Seller would have received had Seller continued to hold the Security, as is provided in The Bond Market Association Master Securities Loan Agreement (May 1993 version). This alternative approach was not adopted for several reasons, including the advantages of providing a default rule based upon facts within the knowledge of both Buyer and Seller rather than a rule based upon Seller's individual tax situation, the difficulty of providing a simple and unambiguious rule in cases where Seller's net after-tax income may be greater than the cash receivable from Seller from the issuer of the Security (e.g., where the withholding tax that would be imposed upon Income paid to Seller is refundable, or where Seller is entitled to foreign tax credits or benefits under an integrated tax system), and the use of a "gross" approach by some market participants. It is expected that the parties will negotiate alternative payment obligations with respect to a Security where Seller would have received Income payments from the issuer of the Security subject to deduction or withholding of tax if Seller had continued to hold the Security, which alternative may include the alternative "net" approach described in this paragraph.

Tax Event

Paragraph 6 of Annex III allows a party to terminate an International Transaction, upon notice to the other party, in the event that any action relating to withholding tax taken by a revenue authority or brought in a court of competent jurisdiction or any change in tax law or practice has a material adverse effect on that party in the context of the International Transaction. This provision is based upon the comparable provision of the PSA/ISMA Global Master Repurchase Agreement, but provides that the tax must be one required to be collected by withholding or deduction (e.g., a gross income tax) and that the action or change of law must take place after the date the International Transaction is entered into.

In order to ensure that an International Transaction is not terminated unless there is a substantial likelihood that the change of tax law will have a material adverse effect on the notifying party, the other party may require the notifying party to provide an opinion of counsel that a change of tax law has taken place and affects the notifying party. The parties may wish to consider adding a provision requiring the affected party to use reasonable efforts to transfer any affected International Transaction to another branch or office if the International

Transaction would no longer be affected by the change of tax law after the transfer, as is provided in the Master Agreement published by the International Swap Dealers Association, Inc. (now the International Swaps and Derivatives Association, Inc.). Such a provision was not included in Paragraph 6 because repos generally are of a shorter term than transactions documented under an ISDA Master Agreement and because market participants have different views as to the desirability of such a transfer provision.

In some cases, a party may prefer to bear the cost of a change of tax law rather than terminate an International Transaction. If that party is the party affected by the change of tax law, such party may elect not to provide the notice referred to above, in which case the provisions of Paragraph 6 will not be invoked. If that party is the other party, such other party may override the notifying party's election to terminate the International Transaction, but in so doing such other party will agree to indemnify the notifying party against the relevant adverse effect. The relevant adverse effect may include, for example, a gross up obligation on payments made by the notifying party to the other party under Paragraph 5 of Annex III.

Events of Default
Paragraph 8 of Annex III provides an additional Event of Default for International Transactions: the failure, after one business day's notice, to perform any covenant or obligation required under Annex III. The nondefaulting party is also entitled, in addition to its rights under Paragraph 11 of the Agreement, to convert any currency into a different currency and offset obligations of the defaulting party denominated in different currencies against each other.

Annex IV: Party Acting as Agent

Annex IV adapts the terms of the Agreement to govern agency Transactions and addresses a number of practical and legal issues in this context. The central objective of Annex IV is to assist parties entering into Transactions in determining who, as between the agent and its principal(s), is liable for performance under the Agreement. It has been modeled after an annex to The Bond Market Association Master Securities Loan Agreement (May 1993 version) covering agency securities loan transactions.

Paragraphs 1 and 2 require the party acting as agent to disclose the identity of the principal(s) for whom it intends to act as agent and to represent and warrant that each such principal has authorized it to execute and deliver the Agreement, to enter into the Transactions and to perform the obligations of the principal(s) thereunder.

Paragraph 3 sets forth general rules limiting the agent's liability under the Agreement. Where the agent has, through compliance with the provisions of the Agreement, taken the steps necessary to permit the other party to the Agreement to assess the creditworthiness of its principal(s), the agent's obligations do not include a guarantee of performance by its principal(s) and the other party's remedies do not include a right of setoff with respect to any obligations between the agent, acting for its own account, and the other party.

Paragraph 4 provides that when an agent acts on behalf of multiple principals, the Agreement presumes that the Transactions will be treated as multiple Transactions on behalf of separate principals, unless the parties agree in writing to treat the Transactions as if they

were Transactions by a single principal. This Paragraph also sets forth the rights and obligations of the agent with respect to each situation.

Paragraph 5 sets forth a general rule of construction for the term "Seller" or "Buyer," as the case may be, in the Agreement in the context of agency Transactions, subject to the limitation of an agent's liability in Paragraph 3 of Annex IV. This Paragraph explicitly acknowledges that each principal has the rights, responsibilities, privileges and obligations of a "Seller" or "Buyer," as the case may be, that enters directly into Transactions with another party, and that the agent has been designated as the sole agent of each principal for performance of Seller's obligations to Buyer or Buyer's obligations to Seller, as the case may be, and for receipt of performance by Buyer of its obligations to Seller or Seller of its obligations to Buyer, as the case may be. The terms "party" and "either party" are deemed to refer to both the agent and the principal(s), including inter alia, in the context of a default. The effect of this construction of the terms "party" and "parties" is that a bankruptcy or similar default by the agent will also be deemed a default by the principal(s).

Annex V: Margin for Forward Transactions

Annex V contains several provisions that can be used to adapt the margin maintenance provisions of the Agreement to govern Forward Transactions. A Forward Transaction is defined as any Transaction agreed to by the parties as to which the Purchase Date has not yet occurred. The central objective of these provisions is to assist parties entering into Forward Transactions in determining the exposure each party has prior to the occurrence of the Purchase Date and imposing margin obligations during the period between the date the parties agree to enter into the Forward Transaction and the Purchase Date for the Forward Transaction.

The parties may agree upon a minimum dollar amount or percentage threshold below which margin calls will not be permitted. The parties may also agree, with respect to any or all Forward Transactions, to provide for Transaction-by-Transaction margin maintenance obligations. Finally, the parties may agree that one party will deposit a minimum dollar amount or percentage with the other party, either on an initial or ongoing basis.

This Annex incorporates the Margin Notice Deadline requirement for same-day satisfaction of margin maintenance obligations in connection with Forward Transactions. A provision requires Forward Collateral (together with any Income thereon and proceeds thereof) to be transferred by the holder thereof upon the occurrence of the relevant Purchase Date and the performance by the parties of their respective obligations on such date. The transfer need not be made if such transfer would trigger margin maintenance obligations.

Annex V provides an additional Event of Default for Forward Transactions: the failure, after one business day's notice, to perform any covenant or obligation required under Annex V. The nondefaulting party is also entitled, in addition to its rights under Paragraph 11 of the Agreement, to sell any or all Forward Collateral and apply the proceeds thereof to, or give the defaulting party credit for such Forward Collateral against, any amounts owing by the defaulting party, to receive any Forward Collateral (together with any Income thereon and proceeds thereof) held by the defaulting party and to purchase Replacement Securities in the event that any Forward Collateral is not so transferred.

Annex VI: Buy/Sell Back Transactions

Buy/Sell Back Transactions have become common in many foreign markets and are recognized in other standard agreements such as the PSA/ISMA Global Master Repurchase Agreement. Accordingly, PSA has prepared a new Annex VI to adapt the Agreement for use in connection with Buy/Sell Back Transactions. The principal economic difference between Buy/Sell Back Transactions and more traditional repo Transactions covered by the Agreement is that, in Buy/Sell Backs, Income payments on the Purchased Securities are retained by the Buyer rather than paid to the Seller (and the Sell Back Price is adjusted accordingly).

The Bond Market Association encourages U.S. counterparties to take particular care in assessing whether to enter into Buy/Sell Back Transactions. Because such Transactions are documented as "buys" and "sells" yet retain many of the economic features of a financing, they may raise authority, accounting and recordkeeping issues for some counterparties. The Bond Market Association considered it desirable, however, to provide a form of documentation that could be used to avoid uncertainty in cases where documentation for such Transactions is required. In this regard, the Annex requires that at least one Confirmation in a Transaction identify it as a Buy/Sell Back.

The Annex has been modeled after a similar annex prepared as part of the PSA/ISMA Global Master Repurchase Agreement. As in the case of the PSA/ISMA Global Master Repurchase Agreement, the Annex requires that each Transaction be identified as a Buy/Sell Back Transaction in the relevant Confirmation and permits the Confirmation to be in the form of either a single document or two separate documents. The provisions of the Annex relating to Accrued Interest, while substantively conforming to the economic terms of the PSA/ISMA Global Master Repurchase Agreement, have been redrafted to reflect the prevailing market convention in the United States of including accrued interest in the Purchase Price for a Transaction (as is contemplated under the definition of "Purchase Price" currently set out in Paragraph 2 of the Agreement).

Annex VII: Transactions with Registered Investment Companies

Annex VII is intended for use in transactions involving registered investment companies or any series or portfolio thereof ("Funds"). Funds have become major participants in the repo market, and are subject to various restrictions imposed by the Investment Company Act of 1940 (the "1940 Act") and related interpretations by the Securities and Exchange Commission (the "SEC") and its staff. Annex VII addresses these concerns by providing standardized language that parties may elect to use in connection with transactions involving Funds as either Buyers or Sellers. The Annex has been prepared by The Bond Market Association in consultation with the Investment Company Institute.

The Bond Market Association has also prepared, for use in connection with Annex VII to the Agreement, a new Schedule of Optional Provisions that parties may elect to use in connection with frequently negotiated supplemental terms, such as provisions specifying representations regarding the financial condition of Buyer and Seller, providing additional representations to be made by the parties, designating authorized persons who may act for the parties and establishing limitations on liability for Transactions involving certain Funds.

Paragraph 1: Multiple Funds

Paragraph 1 of Annex VII addresses the requirement contained in the 1940 Act that the assets and liabilities of each Fund, including any Fund that is a series or portfolio of an investment company, be segregated from the assets and liabilities of all other Funds. Funds must identify the particular Fund to which each Transaction relates and such Fund should be specified in the related Confirmation. The rights, obligations and remedies of either party with respect to a particular Fund are deemed distinct from those applicable to any other Fund, including the margin maintenance obligations of the parties contained in Paragraph 4 of the Agreement, the single agreement provisions of Paragraph 12 of the Agreement and the parties' remedies upon the occurrence of an Event of Default. In addition, Annex VII makes clear that the parties have no right to set off claims related to Transactions entered into by a particular Fund against claims related to Transactions entered into by any other Fund.

In the event the Agreement does apply to multiple Funds, the first page of the Agreement should include a cross-reference to Schedule VII.A where the Fund(s) would be designated as a party. Alternatively, Funds may wish to have the Agreement denominated in the name of the Fund's investment adviser, on behalf of the various Funds identified in Schedule VII.A to Annex VII.

Paragraph 2: Margin Percentage

To address the SEC requirement that Funds engage in repo transactions only if the repo is fully collateralized and the Funds adopt appropriate standards in connection therewith, Paragraph 2 of Annex VII requires that, in any Transaction in which a Fund is acting as Buyer, the Buyer's Margin Percentage may be designated by the parties in the Annex or otherwise agreed by the parties. In any transaction in which a Fund is acting as Seller, the Buyer's Margin Percentage is to be agreed to by Buyer and Seller. In each case, however, such percentage cannot be fixed at less than 100%.

Paragraph 3: Confirmations

Paragraph 3 of the Annex provides that, for any Transaction in which a Fund is acting as Buyer, Seller will provide the Fund with a Confirmation, as is the customary practice in repos involving Funds.

Paragraph 4: Financial Condition

The SEC requires a Fund's investment adviser, following guidelines approved by the Fund's board of directors or trustees, to assure itself periodically that the brokers and dealers with whom it is entering into repos continue to maintain a sound financial condition. To address this concern, Paragraph 4 of Annex VII requires that the Fund periodically be provided with appropriate financial information and imposes a reciprocal obligation upon the Fund to make available and deliver to the other party upon request such information. In addition, this Paragraph contains an acknowledgment that, with respect to each Transaction entered into under the Agreement, each Fund has made an independent evaluation of the creditworthiness of the other party.

Paragraph 5: Segregation of Purchased Securities

To address the 1940 Act requirement that Funds maintain their assets with their designated custodians, Paragraph 6 of the Annex provides that, for any Transaction in which a Fund is acting as Buyer, the Purchased Securities must be maintained in the Fund's custodial account as designated by the Fund in Schedule VII.A to Annex VII.

Schedule of Optional Provisions

The Schedule of Optional Provisions attached hereto contains forms of clauses that parties may elect to insert in Schedule VII.A and use in connection with Annex VII. These clauses provide standard language for frequently negotiated terms used by market participants in connection with repos involving Funds.

Alternative reciprocal representations have been included regarding the financial condition of the parties. The first representation provides that, as of the date a party agrees to enter into each Transaction under the Agreement, there has been no material adverse change in its financial condition which was not disclosed to the other party in writing since the date of the latest statement of financial condition provided pursuant to Paragraph 4 of Annex VII. The second representation is limited to only those changes in financial condition that would materially adversely affect a party's ability to perform its obligations under the Agreement.

A clause containing additional representations has also been prepared, providing that, with respect to each Transaction under the Agreement, each of Seller and Buyer has the right to transfer the Purchased Securities in accordance with the terms of the Agreement and that, upon such transfer, such Securities will be free and clear of any prior liens on the Purchase Date and on the Repurchase Date, respectively.

The Schedule includes alternative provisions relating to authorized persons of the parties. The first permits each party to designate in the Schedule those persons who are authorized to act on its behalf under the Agreement. The second requires each party to provide the other with a list of persons so authorized, which list may be supplemented or amended from time to time.

A limitation of liability clause has been provided that limits the potential liability applicable to the trustees, officers, employees and interestholders of Funds that are organized as business trusts (or series thereof).

An additional Event of Default has been included in the Schedule that parties may elect to use. Under this provision, the revocation or suspension of any authorization referred to in Paragraph 10(iv) of the Agreement would trigger an Event of Default.

In addition, the Schedule contains an optional provision relating to payments and transfers of cash and Securities.

Schedule of Optional Provisions for Annex I

[ ]. **Definitions.** For purposes of the Agreement and this Annex I, the following terms shall have the following meanings:

"Margin Notice Deadline", _____ ([relevant city] time).

"Business Day" or "business day", with respect to any Transaction (other than an International Transaction) hereunder, a day on which regular trading [may] occur in the principal market for the Purchased Securities subject to such Transaction[, which includes shortened trading days, days on which trades are permitted to occur but do not in fact occur and days on which the Purchased Securities are subject to percentage of movement or volume limitations]; provided, however, that for purposes of calculating Market Value, such term shall mean a day on which regular trading occurs in the principal market for the assets the value of which is being determined. Notwithstanding the foregoing, (i) for purposes of Paragraph 4 of the Agreement, "business day" shall mean any day on which regular trading occurs in the principal market for any Purchased Securities or for any assets constituting Additional Purchased Securities under any outstanding Transaction hereunder and "next business day" shall mean the next day on which a transfer of Additional Purchased Securities may be effected in accordance with Paragraph 7 of the Agreement, and (ii) in no event shall a Saturday or Sunday be considered a business day.

[ ]. **Margin Maintenance.** Notwithstanding Paragraph 4 of the Agreement, with respect to any International Transaction [in which the Purchase Price and the Repurchase Price are denominated in the official currency of] [cleared and settled in] one of the following countries, transfers required to be made by Seller of cash or Additional Purchased Securities and Buyer of cash or Purchased Securities pursuant to Paragraph 4 of the Agreement shall be made by the close of business on the next business day following the business day on which notice is given, in the case of notice given at or before the Margin Notice Deadline, or by the close of business on the second business day following the business day on which notice is given, in the case of notice given after the Margin Notice Deadline:

_____
_____
_____

[ ]. **Purchase Price Maintenance.**

(a) The parties agree that in any Transaction hereunder whose term extends over an Income payment date for the Securities subject to such Transaction, Buyer shall on the date such Income is paid transfer to or credit to the account of Seller an amount equal to such Income payment or payments pursuant to Paragraph 5(i) and shall not apply the Income payment or payments to reduce the amount to be transferred to Buyer or Seller upon termination of the Transaction pursuant to Paragraph 5(ii) of the Agreement.

(b) Notwithstanding the definition of Purchase Price in Paragraph 2 of the Agreement and the provisions of Paragraph 4 of the Agreement, the parties agree (i) that the Purchase Price will not be increased or decreased by the amount of any cash transferred by one party to the other pursuant to Paragraph 4 of the Agreement and (ii) that transfer of such cash shall be treated as if it constituted a transfer of Securities (with a Market Value equal to the U.S. dollar amount of such cash) pursuant to Paragraph 4(a) or (b), as the case may be (including for purposes of the definition of "Additional Purchased Securities").

[ ]. **Market Value.**

[Notwithstanding Paragraph 2(j) of the Agreement, the parties agree that in determining Market Value for purposes of Paragraph 4 of the Agreement, the price obtained pursuant to Paragraph 2(j) of the Agreement for the following types of Securities shall be reduced by the applicable percentage:

Security	Percentage Reduction
_____	_____
_____	_____
_____	_____
_____	_____]

[Notwithstanding Paragraph 2(j) of the Agreement, the parties agree that in determining Market Value for purposes of Paragraph 4 of the Agreement, the price obtained pursuant to Paragraph 2(j) of the Agreement shall be reduced by a percentage agreed to by Buyer and Seller.]

[ ]. **Designated Offices.**

(a) The parties agree that Seller may act through the following branches or offices when entering into Transactions governed by the Agreement:

_____
_____
_____

(b) The parties agree that Buyer may act through the following branches or offices when entering into Transactions governed by the Agreement:

_____
_____
_____

[ ]. **Submission to Jurisdiction and Waiver of Immunity.**

(a) Each party irrevocably and unconditionally (i) submits to the non-exclusive jurisdiction of any United States Federal or New York State court sitting in Manhattan, and any appellate court from any such court, solely for the purpose of any suit, action or proceeding brought to enforce its obligations under the Agreement or relating in any way to the Agreement or any Transaction under the Agreement and (ii) waives, to the fullest extent it may effectively do so, any defense of an inconvenient forum to

the maintenance of such action or proceeding in any such court and any right of jurisdiction on account of its place of residence or domicile.

(b) To the extent that either party has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set off or any legal process (whether service or notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise) with respect to itself or any of its property, such party hereby irrevocably waives and agrees not to plead or claim such immunity in respect of any action brought to enforce its obligations under the Agreement or relating in any way to the Agreement or any Transaction under the Agreement.

[ ]. **Additional Event of Default.** In addition to the Events of Default set forth in Paragraph 11 of the Agreement, it shall be an additional "Event of Default" if, as a result of sovereign action or inaction (directly or indirectly), Buyer or Seller becomes unable to perform any absolute or contingent obligation to make a payment or transfer or to receive a payment or transfer in respect of any Transaction under the Agreement or to comply with any other material provision of the Agreement relating to such Transaction.

[ ]. **Alternative Termination Provision for U.K. and Certain Other Counterparties Seeking Regulatory Netting Treatment Under Capital Adequacy Directive.** The parties agree that a nondefaulting party that exercises or is deemed to exercise its right to declare an Event of Default under Paragraph 11(a) of the Agreement may elect, in lieu of application of subparagraphs (b) through (e) of Paragraph 11, to exercise its remedies through application of the following provisions:

"(b) Upon the nondefaulting party's exercise or deemed exercise of the option referred to in subparagraph (a) of this Paragraph (and the deemed occurrence of the Repurchase Date as provided therein), the performance of the respective obligations of the parties with respect to Transactions shall be effected only in accordance with the provisions of subparagraphs (c) through (i) of this Paragraph.

(c) The value of the Purchased Securities to be transferred and the aggregate Repurchase Prices to be paid by each party, and any other amounts owed or owing in connection with Transactions under this Agreement, shall be established by the nondefaulting party for all outstanding Transactions as at the Repurchase Date determined in accordance with subparagraph (a) of this Paragraph (and for this purpose, the value of Purchased Securities transferable by the nondefaulting party shall be the price therefor, obtained from a generally recognized source or the most recent closing bid from such source and the value of Purchased Securities transferable by the defaulting party shall be the price therefor, obtained from a generally recognized source or the most recent closing offer quotation from such source, in each case as determined by the nondefaulting party).

(d) On the basis of the values and other amounts established in accordance with subparagraph (c) of this Paragraph, an account shall be taken (as at the Repurchase Date determined in accordance with subparagraph (a) of this Paragraph) of the amounts owing by each party to the other under this Agreement (which amounts shall be equal, in the case of each party's claims against the other in respect of transfers of

Securities, to the value of such Securities established in accordance with subparagraph (c) of this Paragraph) and the amounts owing by one party shall be set off and applied against the amounts owing by the other, and only the balance of the account shall become immediately due and payable (by the party owing the greater amount pursuant to the foregoing). For purposes of this calculation, all sums not denominated in the Base Currency shall be converted into the Base Currency on the relevant date at the Spot Rate prevailing at the relevant time.

(e) Unless otherwise provided in Annex I, the parties acknowledge and agree that (1) the Securities subject to any Transaction hereunder are instruments traded in a recognized market, (2) in the absence of a generally recognized source for prices or bid or offer quotations for any Security, the nondefaulting party may establish the source therefor in its sole discretion and (3) all prices, bids and offers shall be determined together with accrued Income (except to the extent contrary to market practice with respect to the relevant Securities)."

Schedule of Optional Provisions for Annex VII

[ ]. **Financial Condition. [Alternative 1]** [Each of the parties acknowledges that its agreement to enter into each Transaction under the Agreement shall constitute a representation and warranty that there has been no material adverse change in its financial condition that such party has not disclosed to the other party in writing since the date of the latest statement provided by such party to the other party pursuant to Paragraph 4 of Annex VII.]

[Alternative 2] [Each of the parties acknowledges that its agreement to enter into each Transaction under the Agreement shall constitute a representation and warranty that there has been no change in its financial condition that would materially adversely affect its ability to perform its obligations under the Agreement that such party has not disclosed to the other party in writing since the date of the latest statement provided by such party to the other party pursuant to Paragraph 4 of Annex VII.]

[ ]. **Additional Representations.** In addition to the representations and warranties set forth in Paragraph 10 of the Agreement, (a) Seller represents and warrants to Buyer that, with respect to each Transaction, it will have the right to transfer the Purchased Securities (including any substituted or Additional Purchased Securities) to Buyer in accordance with the terms of the Agreement and that, upon such transfer, such Securities will be free and clear of any prior lien, claim, security interest or other encumbrance on the Purchase Date, and (b) Buyer represents and warrants to Seller that, with respect to each Transaction, it will have the right to transfer the Purchased Securities (after adjustment for any substituted or Additional Purchased Securities) to Seller in accordance with the terms of the Agreement and that, upon such transfer, such Securities will be free and clear of any prior lien, claim, security interest or other encumbrance on the Repurchase Date.

[ ]. **Authorized Persons. [Alternative 1]** [The following persons, and such other persons as are designated by such persons, are authorized to act for Seller (or Buyer, as the case may be) under the Agreement, until notice to the Fund by Seller (or Buyer, as the case may be):

_____

_____

_____

_____

The following persons, and such other persons as are designated by such persons, are authorized to act for the Fund under the Agreement, until notice to Seller (or Buyer, as the case may be) by such Fund:

_____

_____

_____

_____]

[Alternative 2] [Each party shall provide the other with a list of persons authorized to act for such party under the Agreement, which list of authorized persons may be supplemented or amended from time to time.]

[ ]. **Limitation of Liability.** For any Transaction involving a Fund organized as a business trust (or a series thereof) where the trustees, officers, employees or interestholders of such business trust (or series thereof) may be held personally liable for its obligations, Seller (or Buyer, as the case may be) acknowledges and agrees that, to the extent such trustees are regarded as entering into the Agreement, they do so only as trustees and not individually and that the obligations of the Agreement are not binding upon any such trustee, officer, employee or interestholder individually, but are binding only upon the assets and property of said Fund (or series thereof). Seller (or Buyer, as the case may be) hereby agrees that such trustees, officers, employees or interestholders shall not be personally liable under the Agreement and that Seller (or Buyer, as the case may be) shall look solely to the property of the Fund (or series thereof) for the performance of the Agreement or payment of any claim under the Agreement.

[ ]. **Additional Event of Default.** In addition to the Events of Default set forth in Paragraph 11 of the Agreement, it shall be an additional "Event of Default" if a revocation or suspension of any authorization obtained by Buyer or Seller pursuant to Paragraph 10(iv) of the Agreement occurs.

[ ]. **Payment and Transfer.** In accordance with Paragraph 7 of the Agreement, the parties agree that (i) Buyer shall pay the Purchase Price and Seller shall pay the Repurchase Price only against delivery or transfer of the Purchased Securities (after adjustment for any substituted or Additional Purchased Securities); (ii) any transfer of Securities or cash required by Paragraph 4 of the Agreement shall be made free to the other party; and (iii) any release of Purchased Securities permitted by Paragraph 9 of the Agreement shall be made only against delivery or transfer of the substituted Securities. Any transfer on a book-entry system shall be made in compliance with the rules of such system and applicable law.

40 Broad Street
New York, NY 10004-2373
Telephone 212.440.9400
Fax 212.440.5260
www.bondmarkets.com

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Supplemental Guidance Notes

THE MASTER REPURCHASE AGREEMENT (1996 VERSION) AND
PSA/ISMA GLOBAL MASTER REPURCHASE AGREEMENT (1995 VERSION)

Two standard forms of master repurchase ("**repo**") agreements have been developed by industry groups: The Master Repurchase Agreement (1996 version) (the "**MRA**") is published by The Bond Market Association and is governed by the laws of the State of New York. The Global Master Repurchase Agreement (1995 Version) (the "**GMRA**") is published by PSA and the International Securities Market Association ("**ISMA**") and is governed by the laws of England.

These guidance notes provide a framework for analyzing the key differences between the MRA and the GMRA and the implications of using the respective forms in international repurchase transactions, that is, on a cross-border basis or where the securities or other assets subject to the repurchase agreement ("**repo securities**") are issued by non-U.S. issuers or are maintained, for example, with a depository or clearing system outside the United States. These guidance notes have been prepared by The Bond Market Association, in conjunction with ISMA, and in consultation with Clifford Chance, Freshfields and Cleary Gottlieb, Steen & Hamilton, for the benefit of The Bond Market Association's members who are active in the international repo market. These guidance notes supplement the September 1996 Guidance Notes to the MRA published by The Bond Market Association and the November 1995 Guidance Notes to the GMRA published by PSA and ISMA.

These guidance notes provide an analytical framework but should not be relied upon by any party to determine, without appropriate legal, accounting, tax or other relevant professional advice, whether to engage in particular transactions or whether the MRA or GMRA is suitable to its particular circumstances and needs.

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1. Introduction

The GMRA has been developed as the standard agreement for international transactions in non-U.S. markets.[1] In that regard, PSA and ISMA encourage market participants to consider use of the GMRA where appropriate as the standard master repurchase agreement involving international transactions. The MRA with Annex III for International Transactions is, however, an alternative contract that facilitates the provisions of the MRA, governed by New York law, to be used when that may be desired or preferable. For example, where the repos between two U.S. counterparties are primarily in respect of U.S. securities and an MRA is already in place between them, it may be most convenient for transactions in foreign securities to be included by use of Annex III. It also may be more convenient for two U.S. counterparties without any master agreement in place to enter into an MRA for foreign securities.

a. Questions to consider

Nevertheless, repo participants should exercise caution and seek appropriate advice prior to engaging in international transactions whether the GMRA or MRA is used. In each case, a party should determine whether:

- The master repo agreement is legal and binding against its counterparty.
  - — Does the counterparty have the legal capacity and authority to enter into the agreement and the transactions thereunder?
  - — Under the governing law of the contract are its terms enforceable against the counterparty?
- The party will obtain those rights, vis-à-vis the counterparty and third parties, in property (such as repo securities and margin) it intends to acquire by the terms of the master repo agreement.
- The party can exercise its remedies upon default as specified in the master repo agreement, including in the event of insolvency of the counterparty.
- There are particular market conventions affecting the manner in which the transactions are conducted.
- There are any special tax or accounting issues.
- There are regulatory or other legal constraints in engaging in the international repo transactions with the intended counterparty.

b. The main differences between the MRA and GMRA

There are a number of differences between the MRA and GMRA. Each document was developed in consideration principally of the market practices and legal developments in New York and London, respectively. The main differences between the two standard form agreements are:

- Difference in governing law (MRA is governed by N.Y. law, the GMRA by English law).
- Structural difference in remedies in the event of default (the GMRA structures the remedies based on close-out and set-off rights by the buyers and sellers of securities; the MRA relies on termination and liquidation or replacement of securities and deemed liquidation or replacement).

[1] Standard annexes have been produced for a number of jurisdictions. At the time of publication of these guidance notes, ISMA obtained reasoned legal opinions on the GMRA regarding the enforceability in insolvency of the close-out and default provisions from counsel in the Bahamas, Bahrain, Barbados, Bermuda, the British Virgin Islands, Canada, the Cayman Islands, Finland, Hong Kong, Japan, Luxembourg, Malaysia, the Netherlands Antilles, Singapore, South Africa and Switzerland and on the enforceability of the GMRA as a whole, from counsel in Australia, Belgium, Denmark, England, Germany, Ireland, the Netherlands, Sweden and the United States.

- Differences in agency provisions (the MRA allows each party to be represented by an agent and allows for "block" trades in which an agent acts for multiple principals; the GMRA accommodates transactions wherein only one party acts as an agent and only on behalf of a single principal).
- Market-based differences in: the Events of Default; Margin Calculations; Margin for Forward Transactions; Hold-in-Custody Provisions.
- MRA provisions addressing regulatory status of certain U.S. counterparties.
- The GMRA has specific annexes the parties may wish to consider, such as the annex for the gilt repo market in the U.K. and the Australian or the Belgian annex under which the GMRA becomes subject to the local law.

2. How Conflicts of Laws Affects the Choice of Documentation

The first set of issues market participants should address is whether the proposed documentation is legally enforceable and whether a party will be able to obtain the rights and remedies it desires in respect of property to be transferred under the master repo agreement. To answer these questions, the governing law of a repo agreement will not be the only relevant body of law.

The governing law defines whether the parties' contractual undertakings to one another are binding, assuming each has the capacity and authority to enter into and perform its obligations. The law of a different jurisdiction may determine whether a party has the necessary legal capacity and authority. The law of yet another jurisdiction may determine the parties' legal rights in property covered by the contract (e.g., in repo or margin securities) in relation to others, including third-party creditors of the counterparty. Finally, if either party becomes insolvent, yet another jurisdiction or jurisdictions may determine the scope and distribution of the insolvent's estate.

a. The role of the Forum State

The decision on which laws apply to each of these matters, including whether the parties' contractual choice of a governing law will be applied to the contract itself, is a matter for the courts of the Forum State. If either party were to seek judicially to enforce its rights under a repo agreement, including in the context of a counterparty's insolvency proceeding, the laws applicable to the issues presented would be selected according to the conflict of law rules of the jurisdictional forum where the case is brought (the "Forum State"). In an international repo transaction, the Forum State might be the state of establishment or residence of either party or the state(s) in which the repo securities are held (e.g., the location of a depository) or any other jurisdiction with a meaningful connection to the parties or the repo securities.

b. The governing law

The MRA is stated to be governed by New York law and the GMRA is stated to be governed by English law.

A party may choose one governing law over another for a repo agreement for a number of reasons, such as:

i) If it is thought action for enforcement of a contractual right may be more likely taken in New York or in England, choice of that jurisdiction's law as the governing law can simplify any potential litigation.

ii) The law of New York or of England may be the law governing the parties' rights in the repo securities (see d. below) and therefore that law may also be selected to govern the contractual rights of the parties as well in order to simplify legal analysis.

iii) One party may be averse to potential litigation in one of the jurisdictions and therefore not only choose the other jurisdiction's law to govern but also refuse contractually to submit to the jurisdiction of courts in the other country.

iv) If it is important that the Federal Deposit Insurance Corporation Improvement Act of 1991 ("**FDICIA**") is applicable to the repo agreement in order to assure enforceability of termination and liquidation provisions in the event of insolvency proceedings of a U.S. counterparty, then the agreement must be governed by U.S. law (state or federal).[2] FDICIA allows for the parties to net and potentially close-out their obligations at any time notwithstanding any other state or federal law to the contrary.

The advantages of FDICIA are that its protections cover more types of counterparties than do the U.S. Bankruptcy Code protections or U.S. or N.Y. state banking laws and more clearly cover repos involving any form of underlying assets. (For a further discussion of these issues, see 3. below.) Thus the contractual choice of law may affect a party's rights in the event of an insolvency, winding up, bankruptcy, or similar proceeding ("**Bankruptcy**") in the United States.

c. The law establishing the counterparty's capacity and authority

Whether either party has the legal capacity and authority to enter into the MRA or GMRA is normally determined by the law in which the counterparty is established (if a company or partnership) or domiciled (if an individual). Both the MRA and GMRA contain representations and warranties in respect of each party's capacity and authority. In addition, the MRA has a number of provisions specifically addressing legal concerns in respect of certain U.S. counterparties, such as counterparties engaged in transactions involving ERISA assets (paragraph 18 of the MRA) and U.S. investment companies (Annex VII of the MRA).

d. The law establishing rights in and to repo securities and margin

Choice of law rules often do not result in the contractual governing law being applied to the rights of parties to property, including rights relative to third-party creditors of a counterparty. Whether a property transfer is legally effective to achieve a transfer of ownership or whether a party has a perfected and first priority security interest in property is often determined by the law of a jurisdiction in which the property is located or which otherwise has an important relationship to the property itself.

For example, if the Forum State were New York, the choice of law rules applicable to rights in respect of U.S. Treasury securities ("**U.S. Treasuries**") held in the commercial book-entry system of the Federal Reserve, now referred to as Treasury/Reserve Automated Data Entry System ("**TRADES**"), are set forth in federal regulations. In a typical transaction, the repo securities are U.S. Treasuries maintained by a bank in an account in TRADES at the Federal Reserve Bank of New York; that bank (the "custodian bank") maintains securities accounts for others in the ordinary course of its business,

[2] For FDICIA to apply, it is also required that both counterparties are "**financial institutions**" (defined to include a U.S. bank (as a single branch or multibranch party), a U.S. branch of a foreign bank, a U.S. broker-dealer, a U.S. futures commission merchant or an institution that both enters into "**financial contracts**" (defined to include repos) and had one or more such financial contracts of total gross dollar value of U.S.$1 billion in nominal principal amount outstanding on any day during the previous 15 months or had total gross market-to-market positions of at least U.S.$100 million in one or more financial contracts on any day during the previous 15 months).

and, in that capacity, identifies the securities on its books (maintained in New York) as being held on behalf of the repo buyer. Under the federal regulation, the repo buyer's rights in the repo securities not only will be affected by the governing law of the master repo agreement but also by the law governing the contract between the repo buyer and its custodian bank or, in the absence of a contractual governing law provision, the law of New York (assuming that is where its account at the custodian bank is maintained). Thus the only relevant law may not be the law selected to govern the master repo agreement. Under English choice of law rules and our assumed facts, property rights with respect to U.S. Treasuries maintained by the repo buyer in an account in a custodian bank in New York would also be determined primarily by N.Y. (and applicable federal) law even if the GMRA, governed by English law, were used.

Neither the MRA nor the GMRA detail the specific steps that must be taken to transfer securities sold or margin provided in a repo transaction in accordance with the rights sought to be established by the respective agreement. Therefore, in each case the parties must determine the actions required to be taken under applicable law, which may not be the governing law of the contract.

e. Rights in bankruptcy

Under applicable choice of law rules, the governing law of the contract may not determine the rights of the parties in the event of the Bankruptcy of a repo counterparty. The law or laws of the jurisdiction in which a Bankruptcy proceeding is maintained will generally govern, including its choice of law rules. In the case of an international repo transaction, this may be:

- The law of the place of incorporation or main place of business of the counterparty (or its domicile if an individual);
- The law in which the contracting branch of the counterparty is established; and/or
- The law of a jurisdiction in which some assets of the counterparty are located and as to which certain ancillary bankruptcy proceedings may take place.

In discussing the major differences in the MRA and GMRA, these guidance notes highlight some of the important aspects of conflicts of laws that can affect the choice of documentation.

3. Scope of Coverage

The MRA and the GMRA both have potentially broad coverage in respect of repo assets.

The GMRA may be used to document repos in any securities and financial instruments. While the GMRA is stated to exclude net paying securities, equities and U.S. Treasury instruments, ISMA has published an annex adapting the GMRA for use with net paying securities and, at the time of publication of these guidance notes, is about to issue guidance explaining that the GMRA may be used for U.S. Treasury instruments without amendment to the agreement, and an annex adapting the GMRA for use with equity securities is being prepared. The MRA covers repos in securities or "other assets" (e.g., loans or receivables), and thus has potentially broader scope than the GMRA. An equity securities annex is also being prepared for the MRA.

A repo participant should be careful, however, whether using either of the standard forms to cover all types of repo assets potentially covered by these forms, to be sure it has considered all the issues related to the particu-

lar type of asset. Before using a repo agreement for a range of assets, issues should be considered in respect of U.S. and non-U.S. counterparties such as tax consequences flowing from such transactions, local regulation of repo transactions and repo assets (including whether non-local counterparties can own the repo assets under local law), applicable laws relating to the transfer of property interests in the repo assets, and applicable bankruptcy laws.

For example, important issues that repo market participants should consider in respect of U.S. counterparties include the power and authority of such counterparty to enter into the range of contemplated transactions and the applicability of provisions of the U.S. Bankruptcy Code (the "**Code**") or the Federal Deposit Insurance Act ("**FDIA**") which may protect the netting and close-out provisions of repo agreements (in respect of counterparties subject to the foregoing statutes) for certain repo assets but not necessarily all forms of assets.[3]

4. Structural Differences in Remedies in the Event of Default

The GMRA and the MRA each structure slightly differently the remedies available to a repo participant upon the occurrence of an event of default.

The GMRA provides for the outright transfer of the repo securities from repo seller to repo buyer and applies the concept of set-off, in insolvency or other default, of exposures of the repo counterparties to each other for transactions covered by the GMRA. The occurrence of an event of default under the GMRA has the effect of accelerating outstanding transactions, converting delivery obligations in respect of the securities to cash sums based on the "default market value" of the securities (which is taken as the actual dealing price within a limited period or the market value at the end of that period) and then netting outstanding amounts to result in a single sum payable from one party to the other. The default valu-

[3] Section 559 of the Code protects the rights of a repo participant to liquidate, upon the occurrence of an insolvency proceeding under the Code (a "**Code proceeding**"), repurchase agreements which have a maturity of one year or less (or are terminable on demand) and relate to certificates of deposit, eligible bankers' acceptances and U.S. government and agency securities that are direct obligations of, or that are fully guaranteed as to principal and interest by, the United States or any agency of the United States. Section 555 of the Code protects the contractual right of a stockbroker, financial institution (defined to include a commercial or savings bank, industrial savings bank, savings and loan association or trust company, acting for itself or as agent or custodian for a customer) or securities clearing agency to liquidate, upon the occurrence of a Code proceeding, a securities contract (defined to include a contract for the purchase and sale of a security). Although the definition of a securities contract is broad, Section 555's scope is restricted because it applies only to stockbrokers, financial institutions (or their customers where the financial institution is acting as agent) and securities clearing agencies as counterparties to the entity subject to the Code proceeding.

Both Section 555 and 559 contain an exception in the event of a court order authorized under the Securities Investor Protection Act of 1970 or any statute administered by the Securities and Exchange Commission. The U.S. Securities Investor Protection Corporation ("**SIPC**") has determined, in a letter dated February 4, 1986, from Michael E. Don, Deputy General Counsel, to Robert A. Portnoy, Deputy Executive Director and General Counsel of the Public Securities Association, and in a letter dated February 14, 1996, from Michael E. Don, President, to Seth Grosshandler, Cleary, Gottlieb, Steen & Hamilton, that, as to repurchase agreements (whether or not they fall within the Code definition of "repurchase agreement"), the standard proposed order SIPC will seek will still bar their immediate liquidation pursuant to insolvency default clauses, but that SIPC would consent (and would urge the trustee to consent) to their liquidation upon the receipt of an appropriate affidavit (and similar additional documentation) from the counterparty that the affiant has no knowledge of any fraud involved in the repo transactions and that the repo counterparty has a perfected security interest in the underlying securities. The letter states SIPC's hope that it could make the determinations necessary for its consent to closeout within four to five days after the initiation of a liquidation proceeding, or more rapidly in periods of particular market volatility.

FDIA, which would apply to a federally insured bank's receivership or conservatorship proceeding, defines repurchase agreement more broadly than the Code to include certain mortgage-related securities, any mortgage-related loans and any interest in any mortgage loan, and repurchase agreements which have a maturity of one year or less involving certain securities that are direct obligations of or are fully guaranteed by OECD central governments. The foregoing benefits apply regardless of the type of counterparty to the federally insured bank.

ation provisions are flexible and give the non-defaulting party up to two dealing days to deal in the securities to allow for different time zones.[4]

The MRA also is structured as an outright sale of securities but, unlike the GMRA, contains provisions to protect the repo buyer's interest in and to repo securities if the repo agreement were to be recharacterized as a secured loan. The remedies upon default provisions therefore differ from those of the GMRA. Upon the occurrence of an event of default, the remedies of a non-defaulting buyer of repo securities under the MRA include the ability immediately to sell or be deemed to have sold such securities in a commercially reasonable manner. Likewise, a non-defaulting seller of repo securities under the MRA may immediately purchase or be deemed to have purchased the repo securities in a commercially reasonable manner.[5]

The contingency that a repo may be recharacterized as a secured loan, contrary to the intention of the parties, is also addressed in a number of other provisions of the MRA. The MRA contains a specific provision (paragraph 6) that, if the transactions thereunder are deemed to be secured loans rather than sales and purchases, the repo seller shall be deemed to have granted the repo buyer a security interest in the transferred repo securities (the "**Security Interest Provision**").[6] The MRA also contains an acknowledgment by the parties that the underlying repo securities trade in a recognized market. This provision offers the repo buyer protection because Section 9-504 of the Uniform Commercial Code, which applies to the transfer of interests in property, does not require notice to a defaulting party before liquidation of a non-defaulting party's collateral if such collateral consists of securities which trade in a recognized market.

It is important to consider in any international repo transaction the possibility of recharacterization of the repo as a secured loan. Specifically, parties should investigate how the law applicable to the property rights in the repo securities may affect the operation of the GMRA or the MRA. Thus, for example, if the GMRA is used but English law is not the law applicable to the rights of the parties in the repo securities, and under applicable law the repo would be recharacterized as a secured loan, it may not be possible to operate the GMRA as contemplated by its text. For example, would recharacterization require additional steps to be taken in order to obtain a perfected and first priority security interest? Would it affect the repo buyer's rights to rehypothecate the repo securities? Would a stay apply in bankruptcy to the repo buyer's rights to liquidate the repo securities? Does the repo seller have the power and authority to pledge the securities?

The potential effect of recharacterization can also be seen where the MRA is used but English law is determined to be the law applicable to the repo buyer's rights in the repo securities. It is possible that an English court might recharacterize the repo as a secured loan because of the provisions of the MRA described above which are intended to address the contingency of just such an inappropriate recharacter-

[4] For U.K.-regulated firms entering into repos, it is possible to report counterparty risk on a net basis provided the documentation is supported by a legal opinion confirming that the netting provisions are enforceable in the event of default, liquidation or bankruptcy. The GMRA is supported by opinions in respect of a number of jurisdictions so that netting is available where the GMRA is used and the applicable conditions are satisfied. (See note 1.) The MRA has certain optional provisions to achieve this capital treatment for repos entered into under the MRA. (See note 3.)

[5] The MRA contains certain optional alternative remedies upon default provisions exclusively relying on set-offs as a remedy as is done in the GMRA. These provisions, contained in the Schedule of Optional Provisions for Annex I, are entitled "Alternative Termination Provision for U.K. and Certain Other Counterparties Seeking Regulatory Netting Treatment Under Capital Adequacy Directives." Legal opinions for New York, the jurisdiction of incorporation of the counterparty, and the jurisdiction of any branch of the counterparty would be required before U.K. firms could report counterparty exposure on a net basis using these provisions.

[6] We note that this provision may have particular relevance to certain parties. SIPC, which may administer a U.S. broker-dealer's Bankruptcy proceeding, requires that the broker-dealer's repo counterparty show that it has a perfected security interest in any transferred repo securities before SIPC will consent to a closeout of a repo agreement. (See note 3.)

ization. ISMA has obtained the reasoned opinion of Richard Sykes, Q.C., that there is no such risk in the case of the GMRA where English law is applicable.

5. Agency Provisions

The two agreements differ in relation to the provisions for agents to act for principals. Under Annex IV of the GMRA, only one party to the repo agreement can be acting as agent, and can act as agent only for a single disclosed principal. Under the MRA, each party represents that it is acting as a principal unless the parties have agreed otherwise in writing. This agreement may be achieved by the use of Annex IV of the MRA which allows for the MRA to be entered into between agents acting for one or more principals whose identities are disclosed up to one business day after entering into a transaction and also allows for agents to engage in "block transactions," i.e., on behalf of multiple principals. *It is important for parties to assure themselves that their documentation is adequate to obtain recourse against the intended counterparty under the law applicable to its power and authority to contract should the MRA or GMRA be entered into with an agent acting for the counterparty in a single transaction or in block transactions.*[7] Under N.Y. choice of law rules, the law applicable to the issue of whether a principal is bound by action taken on its behalf by an agent will be that of the jurisdiction with the most significant relationship to the parties and the transactions involved, which may not be the governing law of the repo agreement.

6. Market-Based Differences in MRA and GMRA

a. Events of default

(1) Notice requirements

For an event of default to have occurred, the GMRA requires the non-defaulting party to provide a default notice to the defaulting party except in the case of certain acts of insolvency. In addition, the GMRA has a 30-day cure period in respect of certain events of default. In contrast, the MRA does not require the non-defaulting party to provide notice to the defaulting party prior to declaring an event of default, except for one business day's notice in the event of nonpayment of income.

(2) Failure to deliver securities

Under the MRA, the failure to deliver securities on the purchase or repurchase date constitutes an event of default (upon which all outstanding transactions under the MRA can, but need not, be terminated). Under the GMRA, for practical or commercial reasons it does not. However, the performing party is entitled under the GMRA to:

- require the repayment of the purchase price or repurchase price if it has paid it;
- if it has a transaction exposure in respect of the relevant transaction, require the payment of cash margin; or
- by written notice, declare that transaction only shall be terminated.

[7] For a discussion of legal issues arising under New York and English law, respectively, where a party acts as agent for disclosed or for undisclosed principals, see "Fund Managers Acting as Agents and Market Transactions" prepared by the Financial Markets Lawyers Group (January 1996) and "Fund Management and Market Transactions," A Practice Recommendation of the Financial Law Panel (September 1995).

b. **Margin provisions**

(1) **Margin calculation**

Both agreements provide for margin maintenance to be calculated on an aggregate basis across all transactions, but each agreement allows parties to elect not to include a particular repo transaction in this calculation and to provide for margin separately. The margin maintenance provisions of the GMRA offer the parties the option to "reprice" a transaction rather than make a margin call. Repricing is the market pratice for Buy/Sell Back Transactions, and may be done by adjusting the cash or the securities side of the transaction. The MRA provides optional repricing provisions in its Schedule of Optional Provisions for Annex I.

The MRA allows parties to establish a deadline for notices of margin calls such that calls made before that time must be satisfied the same day. The GMRA also contains the option for establishing a deadline. Failure to satisfy margin maintenance obligations is an event of default under both the MRA and the GMRA. However, in the MRA, there is no cure period for a margin default, whereas the GMRA provides for notice to be given to the party who has failed to satisfy the call before an event of default can be triggered.

The GMRA contains a provision for a recipient of cash margin to pay interest on the cash to the paying party. The MRA does not contain a parallel provision, as this type of arrangement has not been the standard practice in the U.S. market.

Parties should consider the conventions in their markets for margin maintenance and the tax, accounting, legal or other ramifications of these conventions as well as the method of exercising rights associated with margin maintenance obligations.

(2) **Margin for forward transactions**

The MRA Annex V provides for margin on forward transactions. In a transaction involving international securities it is important to consider the law of the jurisdiction which will determine the repo participants' property rights in the Forward Collateral (as defined in the MRA Annex V) to ascertain if the parties have effectively transferred ownership of the Forward Collateral or have created a first priority security interest in the Forward Collateral. Similarly, it is important to consider the law(s) applicable to the insolvency of the counterparty to ascertain the rights of the non-defaulting party to set-off or liquidate the Forward Collateral.

c. **Hold in custody repos**

The MRA contains provisions for hold in custody repos; the GMRA does not. Both local regulatory requirements and bankruptcy laws applicable to the repo seller for "hold in custody" repos should be carefully considered to determine whether the repo buyer's rights to the repo securities are protected against a bankruptcy receiver or third party creditor of the repo seller.

d. **Buy/Sell Back Transactions**

Annex VI to the MRA has added provisions for "Buy/Sell Back" transactions. The principal economic difference between Buy/Sell Back transactions and more traditional repo transactions covered by the MRA is that, in Buy/Sell Backs, income payments on repo securities are retained by the repo Buyer (and the sell back price is adjusted accordingly). The GMRA in Annex III also has Buy/Sell

Back provisions, the main difference being that the GMRA calculates accrued interest separately from the purchase price in accordance with London market practice.

The GMRA contains provisions giving the parties the option to reprice the transaction, as does the MRA in the Schedule of Optional Provisions for Annex I. This is the standard method of dealing with fluctuations in the value of securities in Buy/Sell Back transactions.

Before engaging in Buy/Sell Back transactions, issues of power and authority, accounting, tax, and regulatory issues should be carefully considered under applicable law.

e. **Other market-related differences**
Certain other market-related differences are described in the attachment to these Supplemental Guidance Notes.

7. MRA Provisions Related to Regulatory Status of Certain U.S. Counterparties

In order to meet applicable statutory or regulatory requirements of federal law, certain U.S. persons as repo counterparties will find it necessary or preferable to include one or more provisions of the MRA in their repo agreements whether the documentation being used is the MRA or the GMRA:

a. Annex VII for investment companies registered under the U.S. Investment Company Act of 1940.

b. Paragraph 18 for transactions involving ERISA plan assets.

c. Paragraph 20(a) and (b) for U.S. registered brokers or dealers.

d. Paragraph 20(c) for federally insured U.S. financial institutions.

e. Paragraph 8 disclosure for hold in custody repos if the repo seller is a government securities broker or dealer or is a financial institution.

f. Paragraph 19 in respect of bankruptcy and insolvency concerns. The protections of U.S. federal banking laws relating to the receivership and conservatorship of federally or state chartered insured banks or branches of foreign banks will apply to repo agreements even if the parties do not refer in the agreement to the relevant provisions of Section 11(e)(8) of FDIA. Similarly, where a U.S. corporation is a counterparty, parties do not need to refer in their contract to the Code's protections of repos of certain U.S. government and agency securities (Section 559) or other securities contracts by certain financial institutions (Section 555). Nevertheless, parties may wish to include the provisions contained in paragraph 19 referring to the above-referenced statutory sections to confirm that the parties intend them to apply.

8. Counterparties and Securities from Emerging Markets

Where one repo participant is from an emerging market country, or where the repo securities are issued by an issuer from or are maintained in an emerging market country, the counterparty may wish to include an additional event of default to both the MRA and GMRA relating to sovereign risks or force

majeure events. *A provision relating to sovereign risk is included in the MRA's Schedule of Optional Provisions for Annex I and is entitled "Additional Event of Default."*

9. Foreign Regulation

In engaging in repo activities across national borders, a party should obtain advice of counsel on the extent to which the activity is legally permissible under applicable foreign statute and regulation. For example, a party should consider the extent to which it may legally acquire or deal in repo securities in a foreign jurisdiction or deal with local counterparties (e.g., a foreign counterparty's inability to pledge assets) or become subject to local licensing requirements or regulations (such as licensing requirements for broker or dealer activities or solicitation).

10. Use of Two or More Master Agreements with a Single Counterparty

After considering all of the above factors, including the effect on netting of counterparty exposures, a party may find it desirable to enter into more than one Master Repurchase Agreement with a single counterparty, for example, in respect of different types of repo securities. If so, paragraph 14 of the MRA and paragraph 15 of the GMRA would need to be amended. Also, in this situation, parties may wish to include, in each Master Repurchase Agreement, an event of default expressly referring to a default under the other Master Repurchase Agreement. Parties should also consider the need to specify in each confirmation the particular Master Repurchase Agreement between the parties that is applicable to the transaction.

Additional Market-Related Differences in MRA and GMRA

GMRA	MRA
1. Price Differential calculated on basis of 360 or 365 day year (¶2(dd))	1. Price Differential calculated on basis of 360-day year (¶2(k))
2. Requires designating offices through which transactions will be handled (¶2(l))	2. No requirement regarding designated offices; optional provisions for designating offices contained in the Guidance Notes, September 1996 Version, Schedule of Optional Provisions for Annex I
3. Confirmation prevails over agreement (¶3(b))	3. Agreement prevails over confirmation (¶3(b))
4. In lieu of margin maintenance, new repriced transactions can be entered into or are deemed to occur (¶4(i),(j),(k))	4. No provision for entry into new transactions in lieu of margin maintenance; optional provision for repricing contained in Schedule of Optional Provisions for Annex I
5. No threshold amount for margin exposure provided (although can be specified)	5. Provides option to establish threshold amount for margin exposure (¶4(e))
6. Minimum delivery period for margin to be specified (¶4(g))	6. Margin delivery on same or next day (¶4(d))
7. Can specify the return of particular margin assets (¶4(d))	7. No such provision
8. Additional Event of Default: expulsion from self-regulatory organization (¶10(a)(vii))	8. No such additional Events of Default
9. Interest rate on owed obligations upon Event of Default termination = greater of LIBOR or Pricing Rate (¶10(d))	9. Interest rate on owed obligations upon Event of Default termination = greater of Prime Rate or Pricing Rate (¶11(h))
10. Default remedies are limited to those set forth in the agreement (¶10(g))	10. Default remedies specified are in addition to any other rights available under applicable law (¶11(i))
11. Interest provision imposing LIBOR on all unpaid obligations under agreement, outside Event of Default termination (¶12)	11. No non-termination interest rate
12. Contains a "no reliance" representation (¶9(g))	12. No such representation
13. Representation that securities transferred are free of all liens (¶9(h))	13. No such representation
14. Tax representation specific to U.K. regime (¶9(i)); provisions addressing taxes including withholding taxes (¶6(b))	14. Provisions addressing taxes including withholding taxes (¶5 of Annex III).

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THE BOND MARKET ASSOCIATION

Amendment to the Master Repurchase Agreement
1987 or 1996 Version

AMENDMENT, dated as of _____, 1997 to the Master Repurchase Agreement, dated as of _____ (the "Agreement"), between _____ and _____. Capitalized terms used but not defined in this Amendment shall have the meanings ascribed to them in the Agreement.

The parties hereto hereby agree to amend Section 9 of the Agreement by adding at the end of the paragraph the following paragraphs (c) and (d) :

(c) In the case of any Transaction for which the Repurchase Date is other than the business day immediately following the Purchase Date and with respect to which Seller does not have any existing right to substitute substantially the same Securities for the Purchased Securities, Seller shall have the right, subject to the proviso to this sentence, upon notice to Buyer, which notice shall be given at or prior to 10 am (New York time) on such business day, to substitute substantially the same Securities for any Purchased Securities; provided, however, that Buyer may elect, by the close of business on the business day notice is received, or by the close of the next business day if notice is given after 10 am (New York time) on such day, not to accept such substitution. In the event such substitution is accepted by Buyer, such substitution shall be made by Seller's transfer to Buyer of such other Securities and Buyer's transfer to Seller of such Purchased Securities, and after substitution, the substituted Securities shall be deemed to be Purchased Securities. In the event Buyer elects not to accept such substitution, Buyer shall offer Seller the right to terminate the Transaction.

(d) In the event Seller exercises its right to substitute or terminate under sub-paragraph (c), Seller shall be obligated to pay to Buyer, by the close of the business day of such substitution or termination, as the case may be, an amount equal to (A) Buyer's actual cost (including all fees, expenses and commissions) of (i) entering into replacement transactions; (ii) entering into or terminating hedge transactions; and/or (iii) terminating transactions or substituting securities in like transactions with third parties in connection with or as a result of such substitution or termination, and (B) to the extent Buyer determines not to enter replacement transactions, the loss incurred by Buyer directly arising or resulting from such substitution or termination. The foregoing amounts shall be solely determined and calculated by Buyer in good faith.

This Amendment shall be effective January 1, 1998.

Except as amended by this Amendment, the Agreement shall remain in full force and effect.

[Name of Party]	[Name of Party]
By: _____	By: _____
Title: _____	Title: _____
Date: _____	Date: _____

THE BOND MARKET ASSOCIATION

Master Repurchase Agreement

Annex Relating to European Economic and Monetary Union

This Annex forms a part of the Master Repurchase Agreement dated as of _____, 19__ (the "Agreement") between _____ and _____. Capitalized terms used but not defined in this Annex shall have the meanings ascribed to them in the Agreement, including (if the parties have entered into Annex III) Annex III to the Agreement.

1. Definitions

For purposes of the Agreement and this Annex, the following terms shall have the following meanings:

(a) "euro" shall mean the currency of the member states of the European Union that adopt a single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty on the European Union;

(b) "euro unit", "national currency unit" and "transitional period", shall have the meanings given to those terms in the European Council Regulation on the legal framework for the introduction of the euro on January 1, 1999;

(c) "TARGET" shall mean the Trans-European Automated Real-time Gross Settlement Express Transfer system.

2. Continuity of Contract

The parties confirm that the introduction of the euro or the occurrence or non-occurrence of any other event associated with economic or monetary union in the European Community shall not have the effect of altering any term of, nor of discharging or excusing any performance under, the Agreement or any Transaction thereunder, nor give any party the right unilaterally to alter or terminate the Agreement or any Transaction thereunder, or, in and of itself, give rise to an Event of Default under the Agreement. An event associated with economic or monetary union in the European Community shall include, but not be limited to, (a) the introduction of or changeover to the euro; (b) the fixing of conversion rates between a member state's currency and the euro or between the currencies of member states; (c) the substitution of the euro for the ECU; (d) the introduction of the euro as lawful currency of a member state; (e) the withdrawal from legal tender of any currency that, before the introduction of the euro, was lawful currency in one of the member states; (f) the disappearance or replacement of a relevant price source or rate for the ECU or the national currency of any member state, or the failure of a sponsor to publish or display a relevant rate, price, page or screen; or (g) the redenomination, renominalization or reconventioning of any Purchased Securities or Additional Purchased Securities.

3. Purchased Securities/Equivalent Securities

The parties agree that securities will continue to be "Purchased Securities" or "Additional Purchased Securities" notwithstanding the redenomination, renominalization or reconventioning

of those securities in connection with an event associated with economic or monetary union in the European Community.

4. Business Days

The parties agree that if they have entered into Annex III, then with respect to paragraph (iv) of the definition of "Business Day" or "business day" in Paragraph 1(a) of Annex III:

(a) references to a day on which "banks are open for business in the principal financial center" in relation to a national currency unit will be to a day on which banks are open for settling payments in the national currency unit in the principal financial center of that national currency unit immediately prior to the start of the transitional period;

(b) "(A)" shall be inserted after the word "above," and before the words "a day other";

(c) the following words shall be deleted: "(or, in the case of ECU, a day on which ECU clearing operates)"; and

(d) the following words shall be added at the end of the paragraph:

" or (B) in the case of a payment denominated in euro, a day other than Saturday or Sunday on which TARGET operates and banks are open for business in the place where any account designated by the parties for the making or receipt of the payment is situated"

5. Contractual Currency and Payment

The parties agree that if they have entered into Annex III, then:

(a) the following shall be added to the end of the definition of "Spot Rate" contained in paragraph 1(a) of Annex III:

", provided, however, that (i) with respect to amounts to be converted from a national currency unit into the euro or from the euro into a national currency unit, the conversion shall be made at the irrevocably fixed conversion rates specified by Council Regulation (EC) No. 2866/98 and (ii) with respect to amounts to be converted between different national currency units of the euro, the conversion shall be made in accordance with Article 4(4) of Council Regulation (EC) No. 1103/97."

(b) For purposes of the definition of "Contractual Currency"in paragraph 1(a) of Annex III, amounts in euros (whether denominated in the euro unit or a national currency unit) shall be treated as the same currency only if those amounts are both expressed in the euro unit or the same national currency unit.

(c) If as a result of an event associated with economic or monetary union of the European Community, Purchased Securities or Additional Purchased Securities are redenominated into euro during the term of a Transaction, the Contractual Currency for purposes of making payments under the Agreement or Annex III will be euro, unless the Contractual

Currency was a currency other than the currency in which such Purchased Securities or Additional Purchased Securities were previously denominated, or as otherwise agreed.

(d) Notwithstanding paragraph 3(b) of Annex III, the payee of any payments of Income in respect of a Purchased Security may, if the payment is denominated in a national currency unit of a country participating in euro, at its option, accept tender thereof in euro, regardless of whether the payment of Income was received from the issuer of the Purchased Security in euro or the applicable national currency unit. The obligation of the payor of such payment of Income shall be discharged under Paragraph 5 of the Agreement only to the extent that the amount paid in euro is equivalent to the amount expressed in the national currency unit where the conversion is conducted in accordance with the definition of Spot Rate in Annex III, as amended by this Annex.

6. Buy/Sellback Transactions

If the parties have entered into Annex VI and any Buy/Sellback Transaction is outstandizng at the time of a reconventioning of the interest accrual provisions of the relevant Purchased Securities in connection with the introduction of the euro, the parties agree that notwithstanding Paragraph 4 of Annex VI, the "Accrued Interest" for such Buy/Sellback Transaction shall be calculated by reference to the interest accrual provision of such Purchased Securities prior to such reconventioning, as if such reconventioning had not occurred.

7. Representations and Warranties

Each of the parties hereto (and, in the case of a party acting as agent in accordance with the terms of the Agreement, each of its principals) represents and warrants that (a) it has full power and authority to execute and deliver this Annex, to enter into any Transactions contemplated by the Agreement and to perform its obligations thereunder, as amended or supplemented herein; (b) it has taken all necessary action to authorize such execution, delivery and performance; and (c) this Annex constitutes a legal, valid and binding obligation, enforceable against it in accordance with its terms and the terms of the Agreement.

8. Events of Default

In addition to any Events of Default set forth in the Agreement, it shall be an additional Event of Default under Paragraph 11 of the Agreement if either party fails to perform any covenant or obligation required to be performed by it hereunder or if any representation made by either party in respect hereof shall be incorrect or untrue in any material respect during the term of the Transaction under the Agreement, as amended or supplemented herein; provided, however, that to the extent Section 5 hereof amends and supplements Paragraph 5 of the Agreement, any such failure under Section 5 hereof shall constitute an Event of Default only after the expiration of any notice period, if any, specified in Paragraph 11 of the Agreement with respect to such failure.

9. Effectiveness

The provisions of this Annex shall be deemed to be effective as of December 31, 1998.

[Name of Party]	[Name of Party]
By: _____	By: _____
Title: _____	Title: _____
Date: _____	Date: _____

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THE BOND MARKET ASSOCIATION

Master Repurchase Agreement

Annex Relating to European Economic and Monetary Union

This Annex forms a part of the Master Repurchase Agreement dated as of _____ , 19__ (the "Agreement") between _____ and _____. Capitalized terms used but not defined in this Annex shall have the meanings ascribed to them in the Agreement, including (if the parties have entered into Annex III) Annex III to the Agreement.

1. Definitions

For purposes of the Agreement and this Annex, the following terms shall have the following meanings:

(a) "euro" shall mean the currency of the member states of the European Union that adopt a single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty on the European Union;

(b) "euro unit", "national currency unit" and "transitional period", shall have the meanings given to those terms in the European Council Regulation on the legal framework for the introduction of the euro on January 1, 1999;

(c) "TARGET" shall mean the Trans-European Automated Real-time Gross Settlement Express Transfer system.

2. Continuity of Contract

The parties confirm that the introduction of the euro or the occurrence or non-occurrence of any other event associated with economic or monetary union in the European Community shall not have the effect of altering any term of, nor of discharging or excusing any performance under, the Agreement or any Transaction thereunder, nor give any party the right unilaterally to alter or terminate the Agreement or any Transaction thereunder, or, in and of itself, give rise to an Event of Default under the Agreement. An event associated with economic or monetary union in the European Community shall include, but not be limited to, (a) the introduction of or changeover to the euro; (b) the fixing of conversion rates between a member state's currency and the euro or between the currencies of member states; (c) the substitution of the euro for the ECU; (d) the introduction of the euro as lawful currency of a member state; (e) the withdrawal from legal tender of any currency that, before the introduction of the euro, was lawful currency in one of the member states; (f) the disappearance or replacement of a relevant price source or rate for the ECU or the national currency of any member state, or the failure of a sponsor to publish or display a relevant rate, price, page or screen; or (g) the redenomination, renominalization or reconventioning of any Purchased Securities or Additional Purchased Securities.

3. Purchased Securities/Equivalent Securities

The parties agree that securities will continue to be "Purchased Securities" or "Additional Purchased Securities" notwithstanding the redenomination, renominalization or reconventioning

of those securities in connection with an event associated with economic or monetary union in the European Community.

4. Business Days

The parties agree that if they have entered into Annex III, then with respect to paragraph (iv) of the definition of "Business Day" or "business day" in Paragraph 1(a) of Annex III:

(a) references to a day on which "banks are open for business in the principal financial center" in relation to a national currency unit will be to a day on which banks are open for settling payments in the national currency unit in the principal financial center of that national currency unit immediately prior to the start of the transitional period;

(b) "(A)" shall be inserted after the word "above," and before the words "a day other";

(c) the following words shall be deleted: "(or, in the case of ECU, a day on which ECU clearing operates)"; and

(d) the following words shall be added at the end of the paragraph:

" or (B) in the case of a payment denominated in euro, a day other than Saturday or Sunday on which TARGET operates and banks are open for business in the place where any account designated by the parties for the making or receipt of the payment is situated"

5. Contractual Currency and Payment

The parties agree that if they have entered into Annex III, then:

(a) the following shall be added to the end of the definition of "Spot Rate" contained in paragraph 1(a) of Annex III:

", provided, however, that (i) with respect to amounts to be converted from a national currency unit into the euro or from the euro into a national currency unit, the conversion shall be made at the irrevocably fixed conversion rates specified by Council Regulation (EC) No. 2866/98 and (ii) with respect to amounts to be converted between different national currency units of the euro, the conversion shall be made in accordance with Article 4(4) of Council Regulation (EC) No. 1103/97."

(b) For purposes of the definition of "Contractual Currency"in paragraph 1(a) of Annex III, amounts in euros (whether denominated in the euro unit or a national currency unit) shall be treated as the same currency only if those amounts are both expressed in the euro unit or the same national currency unit.

(c) If as a result of an event associated with economic or monetary union of the European Community, Purchased Securities or Additional Purchased Securities are redenominated into euro during the term of a Transaction, the Contractual Currency for purposes of making payments under the Agreement or Annex III will be euro, unless the Contractual

Currency was a currency other than the currency in which such Purchased Securities or Additional Purchased Securities were previously denominated, or as otherwise agreed.

(d) Notwithstanding paragraph 3(b) of Annex III, the payee of any payments of Income in respect of a Purchased Security may, if the payment is denominated in a national currency unit of a country participating in euro, at its option, accept tender thereof in euro, regardless of whether the payment of Income was received from the issuer of the Purchased Security in euro or the applicable national currency unit. The obligation of the payor of such payment of Income shall be discharged under Paragraph 5 of the Agreement only to the extent that the amount paid in euro is equivalent to the amount expressed in the national currency unit where the conversion is conducted in accordance with the definition of Spot Rate in Annex III, as amended by this Annex.

6. Buy/Sellback Transactions

If the parties have entered into Annex VI and any Buy/Sellback Transaction is outstandizng at the time of a reconventioning of the interest accrual provisions of the relevant Purchased Securities in connection with the introduction of the euro, the parties agree that notwithstanding Paragraph 4 of Annex VI, the "Accrued Interest" for such Buy/Sellback Transaction shall be calculated by reference to the interest accrual provision of such Purchased Securities prior to such reconventioning, as if such reconventioning had not occurred.

7. Representations and Warranties

Each of the parties hereto (and, in the case of a party acting as agent in accordance with the terms of the Agreement, each of its principals) represents and warrants that (a) it has full power and authority to execute and deliver this Annex, to enter into any Transactions contemplated by the Agreement and to perform its obligations thereunder, as amended or supplemented herein; (b) it has taken all necessary action to authorize such execution, delivery and performance; and (c) this Annex constitutes a legal, valid and binding obligation, enforceable against it in accordance with its terms and the terms of the Agreement.

8. Events of Default

In addition to any Events of Default set forth in the Agreement, it shall be an additional Event of Default under Paragraph 11 of the Agreement if either party fails to perform any covenant or obligation required to be performed by it hereunder or if any representation made by either party in respect hereof shall be incorrect or untrue in any material respect during the term of the Transaction under the Agreement, as amended or supplemented herein; provided, however, that to the extent Section 5 hereof amends and supplements Paragraph 5 of the Agreement, any such failure under Section 5 hereof shall constitute an Event of Default only after the expiration of any notice period, if any, specified in Paragraph 11 of the Agreement with respect to such failure.

9. Effectiveness

The provisions of this Annex shall be deemed to be effective as of December 31, 1998.

[Name of Party]	[Name of Party]
By: _____	By: _____
Title: _____	Title: _____
Date: _____	Date: _____

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Annex I

Supplemental Terms and Conditions

This Annex I forms a part of the Master Repurchase Agreement dated as of _____, 19__ (the "Agreement") between _____ and _____. Capitalized terms used but not defined in this Annex I shall have the meanings ascribed to them in the Agreement.

1. Other Applicable Annexes. In addition to this Annex I and Annex II, the following Annexes and any Schedules thereto shall form a part of this Agreement and shall be applicable thereunder:

   [Annex III (International Transactions)]

   [Annex IV (Party Acting as Agent)]

   [Annex V (Margin for Forward Transactions)]

   [Annex VI (Buy/Sell Back Transactions)]

   [Annex VII (Transactions Involving Registered Investment Companies)]

2. The following 2 paragraphs shall be added to Paragraph 9 of the Agreement:

   (c) In the case of any Transaction for which the Repurchase Date is other than the business day immediately following the Purchase Date and with respect to which Seller does not have any existing right to substitute substantially the same Securities for the Purchased Securities, Seller shall have the right, subject to the proviso to this sentence, upon notice to Buyer, which notice shall be given at or prior to 10 am (New York time) on such business day, to substitute substantially the same Securities for any Purchased Securities; provided, however, that Buyer may elect, by the close of business on the business day notice is received, or by the close of the next business day if notice is given after 10 am (New York time) on such day, not to accept such substitution. In the event such substitution is accepted by Buyer, such substitution shall be made by Seller's transfer to Buyer of such other Securities and Buyer's transfer to Seller of such Purchased Securities, and after such substitution, the substituted Securities shall be deemed to be Purchased Securities. In the event Buyer elects not to accept such substitution, Buyer shall offer Seller the right to terminate the Transaction.

   (d) In the event Seller exercises its right to substitute or terminate under sub-paragraph (c), Seller shall be obligated to pay to Buyer, by the close of the business day of such substitution or termination, as the case may be, an amount equal to (A) Buyer's actual cost (including all fees, expenses and commissions) of (i) entering into replacement transactions; (ii) entering into or terminating hedge transactions; and/or (iii) terminating transactions or substituting securities in like transactions with third parties in connection with or as a result of such substitution or termination, and (B) to the extent Buyer determines not to enter into replacement transactions, the loss incurred by Buyer directly arising or resulting from such substitution or termination. The foregoing amounts shall be solely determined and calculated by Buyer in good faith.

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THE BOND MARKET ASSOCIATION

Supplemental Guidance Notes to Annex I

Supplemental Terms and Conditions

The Bond Market Association (formerly PSA) would like to call your attention to an important accounting development that will impact the funding markets.

On June 28, 1996, the Financial Accounting Standards Board issued Statement No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("FASB 125"), which institutes new accounting rules for generally accepted accounting principles ("GAAP") applicable to all transactions involving transfers of financial assets, including repurchase agreement and buy/sell back transactions and transfers of collateral constituting financial assets in connection with secured financing transactions.

Under FASB 125, the accounting for repurchase transactions may change depending on the terms of the transaction. In particular, if the repo buyer has the right to sell or re-pledge the repo securities, and if a repo seller does not maintain control over the repo securities - by not having the right to substitute securities or terminate the transaction on short notice - the repo buyer will generally be required to record both the securities as well as an obligation to return the securities, thereby "grossing up" its balance sheet. The repo seller will generally be required to reclassify the repo securities from securities inventory to receivable for securities pledged as collateral.

Paragraph 8 of the Master Repurchase Agreement (the "Agreement") provides that a repo buyer is free to transfer, sell, pledge or re-hypothecate the repo securities. Paragraph 9(a) of the Master Repurchase Agreement provides that the parties to a Repurchase Transaction can agree that the repo seller has substitution rights with respect to the repo securities. In order to enable market participants to mitigate the potential impacts of FASB 125 on their balance sheets, a significant number of Association members active in the repo markets requested that the Association publish a standard provision that allows a repo seller to retain effective control over the transferred repo securities by documenting a right of substitution on the part of the repo seller or a right to terminate a transaction prior to maturity on short notice to the repo buyer. Market participants also preferred not to fundamentally alter the existing trading practices and economic expectations of the repo market.

Attached is Annex I (Supplemental Terms and Conditions) that incorporate this suggested standard provision, previously published as Repo Trading Practices Guideline Update No. 96-1.

The optional substitution/termination provision contained in both of these forms is intended to both provide for a right of substitution/termination on the part of the repo seller and prescribe a methodology for quantifying economic loss suffered by the repo buyer as a direct consequence of the repo seller's exercise of its substitution/termination right. The provision is intended to make the repo buyer economically "whole". In other words, although the repo seller would maintain effective control over the asset transferred in the repo transaction, the repo buyer would not suffer economically because the loss provision is intended to place the buyer in the same position it would have been had the tranferor not effectuated that control through the exercise of the substitution/termination right.

The attached Annex I also contains a short time frame for notice of substitution. The provision reflects the current Association Restated Repo Trading Practices Guidelines (Paragraph M.3.) by providing that notice of substitution should be provided by 10 am (New York time) for substitutions to occur on the same business day, and if notice of substitution is given after 10 am (New York time), substitution would occur on the next business day. The Funding Division Trading Practices Committee views such period as the minimal time frame necessary to effectuate the exercise of the contractual right and determine the appropriate dollar amount consistent with the contractual "make whole" provision. Parties may agree on different notice periods.

As always, the Association recommends that market participants consult with their legal and accounting advisors concerning the desirability of use of this Annex I (Supplemental Terms and Conditions) with respect to its firm's particular needs and circumstances.

sifma

Invested in America

Amendment to Annex III (International Transactions) of the Master Repurchase Agreement
1996 Version

Dated as of _____

Between: _____

and _____

The parties hereto, having previously entered into a Master Repurchase Agreement (the "Agreement"), dated as of _____ ____, _____, agree to amend Annex III (International Transactions) to the Agreement as follows:

(a) The following definition is hereby inserted into Paragraph 1 after the definition of "Euroclear":

"FATCA", Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), as of the date of this Agreement (or any amended or successor version that is substantively comparable thereto and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, and any fiscal or regulatory rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections.

(b) The words "any certificate or document" in subparagraph 5(b)(ii) are hereby replaced with the words "any certificate, document or information".

(c) Subparagraph (iv) is hereby replaced with the following:

(iv) Notwithstanding subparagraph (b)(i) of this Paragraph,

(A) no additional amounts shall be payable by Payor to Payee (x) in respect of an International Transaction to the extent that such additional amounts are payable as a result of a failure by Payee to comply with its obligations under subparagraph (b)(ii) or (b)(iii) of this Paragraph with respect to such International Transaction, or (y) in respect of any U.S. federal withholding Tax imposed or collected pursuant to FATCA;

(B) no additional amounts shall be payable by Payor in respect of Tax required to be deducted or withheld from a payment by Payor to a Payee that is a Seller to the extent that Tax of an equivalent or

greater amount would have been withheld or deducted in respect of income paid or distributed on a Purchased Security had the Security been retained by Seller. Payor shall be entitled to rely upon any certificate, document or information provided by Seller, or the absence of such items, in determining whether additional amounts are required to be paid; and

(C) no additional amounts in respect of U.S. federal income tax shall be payable by Payor to Payee in respect of interest considered received by a bank, including any entity regulated as a bank or conducting a banking business, extending credit in the ordinary course of its lending business.

(v) Liability. If:—

(A) Payor is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding in respect of which Payor would not be required to pay an additional amount to Payee under subparagraph (b) of this Paragraph;

(B) Payor does not so deduct or withhold; and

(C) a liability resulting from such Tax is assessed directly against Payor,

then, except to the extent Payee has satisfied or then satisfies the liability resulting from such Tax, Payee will promptly pay to Payor the amount of such liability (including any related liability for interest, but including any related liability for penalties only if Payee has failed to comply with its obligations under subparagraph (b)(ii) or (b)(iii) of this Paragraph).

This Amendment shall be effective immediately upon execution and shall apply to all current and future Transactions.

THIS AMENDMENT SHALL BE GOVERNED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF.

Except as amended by this Amendment, the Agreement shall remain in full force and effect.

_____	_____
By: _____	By: _____
Title: _____	Title: _____
Date: _____	Date: _____

sifma

Invested in America

Guidance Notes to the Amendment to Annex III (International Transactions) of the Master Repurchase Agreement

1996 Version

The Securities Industry and Financial Markets Association ("SIFMA") has prepared an Amendment (the "Amendment") to Annex III (International Transactions) of the Master Repurchase Agreement (the "Agreement"), which would revise Paragraph 5 (Taxes) of Annex III in order to address certain changes to U.S. federal income tax law and to market practice affecting the parties' withholding tax obligations. The principal changes address potential withholding tax under the U.S. Foreign Account Tax Compliance provisions ("FATCA") enacted in 2010, and potential withholding tax under the U.S. tax rules relating to "substitute dividends" or "dividend equivalents."

These guidance notes should not be relied upon by any party to determine, without appropriate legal, accounting, tax or other relevant professional advice, whether to engage in particular transactions and whether the Agreement or Annex III is suitable to its particular circumstances and needs.

Capitalized terms used but not otherwise defined in these guidance notes have the meanings given to them in the Agreement and in Annex III.

1. FATCA

Background. FATCA generally provides that a U.S. withholding agent must withhold 30 percent on withholdable payments, such as interest, dividends, or gross proceeds from instruments on which such payments are made, made to a "foreign financial institution" ("FFI") unless the FFI enters into an agreement (an "FFI Agreement") with the U.S. Internal Revenue Service ("IRS") to carry out diligence to determine whether its account holders are specified United States persons or United States foreign owned entities, to report certain information about such account holders to the IRS, and to withhold U.S. tax on certain payments to account holders that are not compliant with FATCA, among other matters. FATCA also imposes 30 percent withholding tax on payments to non-financial foreign entities that do not provide information relating to their substantial United States owners. Under proposed regulations, withholding agents would be required to begin withholding tax under FATCA in 2014. The United States and several other governments have announced their intent to explore a common approach to FATCA implementation through domestic reporting and reciprocal automatic exchange and based on existing bilateral tax treaties.

FATCA could require a U.S. withholding agent to withhold tax on the payment of Price Differential or Repurchase Price, or on payments of amounts equal to Income on Purchased Securities issued by U.S. issuers.

Changes to Paragraph 5. Subparagraph 5(b)(i) of Annex III generally requires that the Payor of money under an International Transaction will make payments free of Tax except as required by law. If Tax is imposed, Payor generally is required to pay additional amounts to Payee sufficient to ensure that Payee receives the same cash payment it would have received absent the Tax. Payor is not required to pay additional amounts, however, if the tax results from certain connections between the taxing jurisdiction and Payee or to the extent that the Tax results from Payee's failure to comply with certain tax documentation and related obligations.

The Amendment revises Subparagraph 5(b)(iv) to include several new exceptions to Payor's obligation to pay additional amounts, which are intended to apply in addition to the existing exceptions. New subparagraph 5(b)(iv)(A)(y) provides that additional amounts are not payable in respect of any U.S. federal withholding tax imposed or collected pursuant to FATCA. The term "FATCA" is defined to refer to the applicable statutory provisions and certain amended or successor provisions, any regulations or other official interpretations thereof, any FFI Agreement, and any fiscal or regulatory rules adopted by a non-U.S. government pursuant to any intergovernmental agreement entered into in connection with the implementation of FATCA. This definition is similar to the corresponding language in the Loan Syndications and Trading Association (LSTA) 2011 model credit agreement provisions.

It is intended that the exception in subparagraph 5(b)(iv)(A)(y) of Annex III will apply to any U.S. withholding taxes imposed by FATCA, regardless of whether they are collected or required to be collected by a U.S. or non-U.S. withholding agent. Subparagraph 5(b)(iv)(A)(y) is not intended, however, to apply to any non-U.S. withholding taxes, regardless of whether the adoption of such laws is related in some way to FATCA.

The Amendment expands the tax documentation provisions of subparagraph 5(b)(ii) of Annex III to refer to information as well as certificates and documents because elimination of FATCA withholding tax may require Payee to provide information to Payor, for example the Payee's foreign financial institution employer identification number (FFI EIN).

The Amendment makes no changes to Paragraph 6 (Tax Event) of Annex III. Consequently, if the imposition of withholding tax under FATCA has a material adverse effect on a party to an International Transaction, that party may be entitled to terminate the Transaction.

2. Dividend Equivalents

Background. U.S. tax law requires that a U.S. withholding agent that makes a payment of amounts equal to Income attributable to a dividend on a U.S. equity to a non-U.S. person withhold tax at the same rate that would apply as if the payment were the underlying dividend. Since 2010, temporary rules have provided that a similar payment by a non-U.S. withholding agent to another non-U.S. person also is subject to U.S. withholding tax unless the recipient is a "qualified securities lender" ("QSL") and certain other conditions are satisfied. (Different rules applied under prior law.)

Other countries also may impose withholding tax on manufactured interest or dividend payments.

Changes to Paragraph 5. The Amendment adds new subparagraph 5(b)(iv)(B) of Annex III, which provides that, if Payee is the Seller, Payor is not required to pay additional amounts to the extent that Tax of an equivalent amount would have been withheld on the income on the relevant Purchased Security if it had been retained by Seller. Payor is entitled to rely upon documentation provided, or not provided, by Seller to determine the withholding tax that would have applied to the income on the Purchased Security if it had been retained by Seller.

In the case of U.S. withholding tax on substitute dividends, the amended provisions are intended to operate in the following manner:

Example 1. Assume that a non-U.S. party sells a U.S. equity to a counterparty, and Seller would have been subject to a 30 percent U.S. withholding tax on the receipt of a $100 dividend on the U.S. equity and is not a QSL. Payor (Buyer) would withhold $30 of U.S. tax in respect of the substitute dividend payment that it makes and would pay $70 to Seller. Because Seller would have been subject to $30 of U.S. withholding tax on the dividend, Payor is not obligated to pay additional amounts to Seller in respect of the $30 U.S. withholding tax on the substitute dividend.

Example 2. Assume the same facts as Example 1, except that Seller is entitled to a reduced 15 percent rate of withholding tax on the receipt of a $100 dividend on a U.S. equity pursuant to a U.S. income tax treaty. Seller provides an IRS tax form to Buyer stating that it is a foreign person, but does not claim the benefits of the treaty. Payor (Buyer) would withhold $30 of U.S. tax in respect of the substitute dividend payment that it makes because Seller did not provide documentation claiming a reduced rate of withholding tax under a treaty, and would pay $70 to Seller. Payor is not obligated to pay additional amounts to Seller in respect of the $30 U.S. withholding tax on the substitute dividend.

Example 3. Assume that a non-U.S. party sells a U.S. equity to a U.S. counterparty, and Seller would have been subject to a 15 percent withholding tax on the receipt of a $100 dividend on the U.S. equity. Seller is a QSL and has provided adequate certification of that status to Payor. Payor (Buyer) is obligated to pay $100 in respect of that dividend, and is not required to withhold U.S. tax on the substitute dividend because Seller is a QSL. Subparagraph 5(b)(iv)(B) therefore is not relevant to that payment, unless another jurisdiction imposes withholding tax on the substitute dividend payment.

3. Other Changes to Paragraph 5.

Indemnity. The Amendment adds new subparagraph 5(b)(v) of Annex III, which provides a contractual indemnity by Payee to Payor in the event that Payor is obligated to withhold Tax on a payment to Payee but fails to do so. If a tax authority seeks to collect the Tax from Payor, and the Tax is one for which Payor is not obligated to pay additional amounts to Payee, Payee is obligated to pay an amount equal to the Tax to Payor. In addition, if Payee failed to comply with its obligations to provide tax documents and related notices to Payor, Payee also would be obligated to compensate Payor for any related interest and penalties on the unpaid Tax since it is assumed that Payee's failure to provide tax documents etc. was the cause of Payor's failure to withhold Tax.

Bank loan exception. U.S. tax rules generally impose a 30 percent withholding tax on interest paid to non-U.S. persons on debt instruments with a term longer than 183 days. This tax may apply to Price Differential paid by a U.S. Buyer or to amounts equal to Income on a debt security, subject to several exceptions including the "portfolio interest" exception and withholding tax reductions or elimination under U.S. tax treaties. The portfolio interest exception does not apply to interest received by a bank on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its business.

Amounts paid on short-term repos generally are exempt from U.S. withholding tax under the 183-days-or-less rule described above. As a result of changes to the market, it is becoming more common for repos to have terms longer than 183 days. Accordingly, new subparagraph 5(b)(iv)(C) provides that a Payor is not required to pay additional amounts in respect of U.S. withholding tax, if any, imposed on interest considered received by a bank extending credit in the ordinary course of its lending business.

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THE BOND MARKET ASSOCIATION

Annex VIII

Transactions in Equity Securities

This Annex VIII (including any Schedules hereto) forms a part of the Master Repurchase Agreement dated as of _____, 19__ (the "Agreement") between _____ and _____. This Annex VIII sets forth supplemental terms and conditions governing all Transactions in U.S. and non-U.S. Equity Securities. In the event of any conflict between the terms of this Annex VIII and any other term of the Agreement, the terms of this Annex VIII shall prevail. Capitalized terms used but not defined in this Annex VIII shall have the meanings ascribed to them in the Agreement.

1. **Definitions.** For the purposes of the Agreement and this Annex VIII, the following terms shall have the following meanings:

"Equity Security", any stock or similar security; or any security convertible, with or without consideration, into such a security; or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right; or any other "equity security" within the meaning of Section 3(a)(11) of the Exchange Act and the rules thereunder;

"Exchange Act", the Securities Exchange Act of 1934, as amended, and all rules and regulations promulgated thereunder;

"Market Value", with respect to Equity Securities, the meaning given in Paragraph 9 of this Annex;

"Purchased Securities" (including any "Additional Purchased Securities"), the meaning specified in the Agreement, except that if any new or different Security or other consideration shall be exchanged for any Purchased Security by recapitalization, merger, consolidation or other corporate action, such new or different Security or other consideration shall, effective upon such exchange, be deemed to become a Purchased Security, in substitution for the former Purchased Security for which such exchange is made;

"Securities Act", the Securities Act of 1933, as amended, and all rules and regulations promulgated thereunder;

"Standard Settlement Date", the standard date for settlement of transactions in an Equity Security, established in accordance with Rule 15c6-1 under the Exchange Act, where applicable, or otherwise in accordance with customary market practice for such Equity Security, unless the parties agree to the contrary.

2. **Termination.** Notwithstanding Paragraph 3(c) of the Agreement, in the case of Transactions in respect of Equity Securities terminable upon demand, the termination date specified in any notice by Seller shall be a business day no earlier than the Standard Settlement Date for trades of Purchased Securities entered into at the time of such notice.

3. **Margin Maintenance**. In addition to any agreement by the parties under Paragraph 4(f) of the Agreement, Buyer and Seller may agree, with respect to any or all Transactions under the Agreement, that the respective rights of Buyer and Seller under subparagraphs (a) and (b) of Paragraph 4 of the Agreement to require the elimination of a Margin Deficit or a Margin Excess, as the case may be, may be exercised whenever such a Margin Deficit or a Margin Excess exists with respect to any class of Transactions under the Agreement (calculated without regard to any other class of Transactions outstanding under the Agreement). The classes designated by the parties under this Paragraph may include, without limitation, Transactions in Equity Securities and Transactions in non-Equity Securities.

4. **Dividends, Distributions, etc.**

   (a) In accordance with Paragraph 5 of the Agreement, Seller shall be entitled to receive an amount equal to all Income paid or distributed on or in respect of Purchased Securities that is not otherwise received by Seller, to the full extent it would be so entitled if Purchased Securities had not been sold to Buyer. The parties expressly acknowledge and agree, for the avoidance of doubt, that such Income shall include, but not be limited to: (i) cash and all other property, (ii) stock dividends, (iii) Securities received as a result of split ups of Purchased Securities and distributions in respect thereof, (iv) interest payments and (v) all rights to purchase additional Securities (except to the extent that any amounts included in the foregoing clauses (i) through (v) would be deemed to be Purchased Securities under Paragraph 1 of this Annex).

   (b) Cash Income paid or distributed on or in respect of Purchased Securities, which Seller is entitled to receive pursuant to subparagraph (a) of this Paragraph, shall be treated in accordance with Paragraph 5 of the Agreement. Notwithstanding Paragraph 5 of the Agreement, non-cash Income received by Buyer shall be added to the Purchased Securities on the date of distribution and shall be considered such for all purposes, subject to Buyerís obligation to transfer Purchased Securities to Seller upon termination of the relevant Transaction in accordance with the terms of the Agreement.

5. **Payment and Transfer**. In addition to the transfer methods set forth in Paragraph 7 of the Agreement, Equity Securities transferred by one party hereto to the other party may be transferred through The Depository Trust Company.

6. **Additional Representations**. In addition to the representations and warranties set forth in Paragraph 10 of the Agreement, the following representations and warranties shall apply, unless otherwise agreed by the parties:

   (a) on the Purchase Date for any Transaction and again on each date that Additional Purchased Securities that are Equity Securities are transferred pursuant to Paragraph 4(a) of the Agreement, Seller represents and warrants that (i) Seller is familiar with the provisions of Rule 144 under the Securities Act, (ii) Seller is not, and within the preceding three months has not been, an "affiliate" of the issuer of any Purchased Securities or Additional Purchased Securities as that term is used in Rule 144, and (iii) any Purchased Securities or Additional Purchased Securities transferred to Buyer by Seller are not "restricted securities" within the meaning of Rule 144 or otherwise subject to any legal, regulatory or contractual restrictions on transfer; and

(b) on the Repurchase Date for any Transaction and on each date that Purchased Securities that are Equity Securities are transferred pursuant to Paragraph 4(b) of the Agreement, Buyer represents and warrants that (i) Buyer is familiar with the provisions of Rule 144 under the Securities Act, (ii) Buyer is not, and within the preceding three months has not been, an "affiliate" of the issuer of any Purchased Securities as that term is used in Rule 144, and (iii) assuming the accuracy and completeness of Sellerís representations under subparagraph (a) of this Paragraph, any Purchased Securities transferred to Seller by Buyer are not "restricted securities" within the meaning of Rule 144 or otherwise subject to any legal, regulatory or contractual restrictions on transfer.

7. **Rights of Buyer in Purchased Securities.** Except as otherwise agreed by the parties, Seller waives the right to vote, or to provide any consent or to take any similar action with respect to, Purchased Securities that are Equity Securities in the event that the record date or deadline for such vote, consent or other action falls during the term of a Transaction.

8. **Events of Default.** In addition to the Events of Default set forth in Paragraph 11 of the Agreement, it shall be an additional "Event of Default" if either party fails to perform any covenant or obligation required to be performed by it under this Annex VIII, provided, however, that to the extent that Paragraphs 3 and 4 hereof supplement and amend, respectively, Paragraphs 4 and 5 of the Agreement, any such failure under Paragraphs 3 or 4 hereof shall constitute an "Event of Default" only after the expiration of the notice period, if any, specified in the Agreement with respect to the occurrence of an Event of Default for such a failure under such Paragraph 4 or 5 of the Agreement, as applicable.

9. **Market Value**

(a) Unless otherwise agreed, if the principal market for the Equity Securities to be valued is a national securities exchange in the United States, their Market Value shall be determined by their last sale price on such exchange on the preceding business day or, if there was no sale on that day, by the last sale price on the next preceding business day on which there was a sale on such exchange, all as quoted on the Consolidated Tape or, if not quoted on the Consolidated Tape, then as quoted by such exchange.

(b) Except as provided in subparagraph (c) of this Paragraph or as otherwise agreed, if the principal market for the Equity Securities to be valued is the over-the-counter market, their Market Value shall be determined as follows. If the Equity Securities are quoted on The Nasdaq Stock Market ("Nasdaq"), their Market Value shall be the closing sale price on Nasdaq on the preceding business day or, if the Equity Securities are issues for which last sale prices are not quoted on Nasdaq, the closing bid price on such day. If the Equity Securities to be valued are not quoted on Nasdaq, their Market Value shall be the highest bid quotation as quoted in any of The Wall Street Journal, the OTC Bulletin Board service, quotations sheets of registered market makers and, if necessary, dealersí telephone quotations on the preceding business day. In each case, if the relevant quotation did not exist on such day, then the relevant quotation on the next preceding business day in which there was such a quotation shall be the Market Value.

(c) Unless otherwise agreed, if the Equity Securities to be valued are principally cleared and settled outside the United States, their Market Value shall be determined as of the close of

business on the preceding business day in accordance with market practice in the principal market for such Equity Securities.

(d) All determinations of Market Value under subparagraphs (a), (b) and (c) of this Paragraph shall include, where applicable, accrued Income to the extent not already included therein (other than any Income transferred to the other party pursuant to Paragraph 4 of this Annex), unless market practice with respect to the valuation of such Equity Securities in connection with repurchase agreements is to the contrary.

10. **Additional Covenant**. Except to the extent required by applicable law or regulation or as otherwise agreed, Seller and Buyer agree that Transactions hereunder shall in no event be "exchange contracts" for purposes of the rules of any securities exchange and that Transactions hereunder shall not be governed by the buy-in or other rules of any such exchange, registered national securities association or other self-regulatory organization.

Schedule VIII.A

Additional Provisions Regarding Transactions in Equity Securities

This Schedule VIII.A forms a part of Annex VIII to the Master Repurchase Agreement dated as of _____, 19__ (the "Agreement") between _____ and _____. Capitalized terms used but not defined in this Schedule VIII.A shall have the meanings ascribed to them in Annex VIII.

THE BOND MARKET ASSOCIATION

Guidance Notes to Annex VIII
Transactions in Equity Security

SIA

In view of legislative and regulatory developments that have substantially expanded the opportunities for repo market participants to engage in Transactions involving Equity Securities, The Bond Market Association and the Securities Industry Association have prepared a new Annex VIII to the Master Repurchase Agreement (the "Agreement") for use in connection with such Transactions. Although the current scope of the Agreement encompasses Transactions in any securities, it was drafted in the context of a repo market comprised almost exclusively of Transactions in debt instruments. Annex VIII modifies and supplements the Agreement in certain respects to provide a framework in which the parties may address the special practical and legal issues raised by Transactions in Equity Securities.

These guidance notes briefly summarize the scope and key provisions of Annex VIII and identify certain additional issues which parties entering into Transactions in Equity Securities may wish to address in Schedule VIII.A to the Annex or otherwise. The following discussion should not be relied upon by any party to determine, without appropriate legal, tax, accounting or other relevant professional advice, whether Annex VIII is suitable to its particular circumstances and needs or whether modifications to Annex VIII are required to address adequately issues that may be raised by Transactions in specific Equity Securities. Capitalized terms used but not otherwise defined in these guidance notes have the meanings given to them in the Agreement or Annex VIII.

Background. The National Securities Markets Improvement Act of 1996 (the "1996 Act") removed significant legal obstacles to the development of a U.S. repo market for Equity Securities. In particular, the 1996 Act substantially eliminated prior restrictions under Sections 7 and 8 of the Exchange Act – and the rules of the Board of Governors of the Federal Reserve System (the "Board") thereunder – which generally permitted broker-dealers to obtain credit against listed equity securities only from banks and other broker-dealers and subject to significant minimum margin requirements. Transactions in which a broker-dealer acts as Seller of Equity Securities have traditionally been considered susceptible to characterization as extensions of credit to the broker-dealer for purposes of these former restrictions under the Exchange Act and the Boardís margin rules.

Under the 1996 Act, no federal margin requirements apply to extensions of credit to a member of a national securities exchange or a registered broker-dealer (i) a substantial portion of whose business consists of transactions with persons other than broker-dealers or (ii) to finance the borrowerís activities as a market maker or underwriter. The Board implemented the 1996 Act by, among other things, excluding from the scope of its margin regulations extensions of credit to certain "exempted borrowers" (as defined in the regulations) that qualify for the statutory exemption. Transactions by qualifying broker-dealers acting as Sellers (including Transactions in Equity Securities) are therefore now generally free from regulation under Sections 7 and 8 of the Exchange Act or the Boardís margin rules. Such Transactions remain subject, however, to other securities laws and regulations (including any applicable margin requirements of securities self-regulatory organizations governing Buyers who are broker-dealers).

Scope of Annex VIII and Use of Schedule VIII.A. As indicated above, Annex VIII is intended to provide a framework for Transactions in Equity Securities, including both U.S. and non-U.S. Securities. A form of Schedule VIII.A has been added to the end of the Annex to provide parties with the flexibility to modify the approach taken in the Annex or to supplement the Annex with additional provisions.

Definitions. Paragraph 1 of the Annex provides several additional definitions relevant to Transactions in Equity Securities and modifies certain existing definitions under the Agreement with respect to such Transactions. The new definition of "Equity Security" refers specifically to certain types of securities covered by the Annex and, in addition, explicitly incorporates by reference any other security that is an "equity security" within the meaning of Section 3(a)(11) of the Exchange Act or the rules thereunder. This definition of "Equity Security" is intended to encompass, among other things, ADRs for which the underlying securities are Equity Securities.

The definition of "Purchased Securities" (including "Additional Purchased Securities") under the Agreement has been modified to clarify that if any new or different Securities are exchanged for any Purchased Securities (e.g., through a recapitalization or other corporate action), such new or different Securities shall become Purchased Securities. This approach is consistent with the treatment of such exchanges with respect to loaned securities under Section 26.14 of the Master Securities Loan Agreement.

The definition of "Standard Settlement Date" is based on the standard settlement cycle for the relevant Security. The application of this definition is discussed under "Termination" below.

Termination. Paragraph 2 of the Annex modifies the provisions of Paragraph 3(c) of the Agreement regarding Transactions terminable upon demand. Paragraph 3(c) normally permits such Transactions to be terminated by either party upon the delivery of a notice specifying a termination date, which could be the same or following business day. Paragraph 2 of the Annex requires a Seller providing such termination notice to specify a termination date no earlier than the Standard Settlement Date for the Securities (determined based on the standard settlement cycle for such Securities). This expansion of the notice period required to be provided by Seller is intended to address situations in which Buyer does not have possession of the Securities -- e.g., because it has delivered the Securities to another party in connection with a separate transaction -- and therefore (taking into account the standard settlement cycle for the Securities) requires more than one business day to purchase or otherwise obtain the Securities for delivery to Seller on the termination date.

Under Paragraph 3(c) of the Agreement and Paragraph 2 of the Annex, a demand for termination by Seller must specify a termination date no earlier than the Standard Settlement Date (determined in accordance with SEC Rule 15c6-1, where applicable, or otherwise in accordance with customary market practice) on which Buyer would obtain delivery of the relevant Securities if Buyer were to purchase such Securities at the time of the termination notice. For example, in a Transaction involving Equity Securities traded primarily in the United States, a termination notice delivered to Buyer during New York trading hours may specify as the termination date the Standard Settlement Date for a trade in the relevant Securities entered into in the relevant U.S. market at the time of the notice (i.e., generally the third business day after the date of the contract). If, on the other hand, a Transaction involves Equity Securities having Tokyo as their primary market, the Standard Settlement Date would be determined based on the standard date for settlement of trades entered into in that market at the time of the notice.

The termination date specified by Seller under Paragraph 2 of Annex VIII must be a business day. The parties should note that if Annex VIII is used together with Annex III (for Transactions in "International Securities"), the termination date for Transactions subject to Annex III must be a "business day" as defined in Annex III (which generally includes any date on which the primary market for the applicable Security is open). In addition, the parties should note that the termination procedures in Paragraph 2 of the Annex differ somewhat from the provisions of Section 5 of the Master Securities Loan Agreement, under which (due to certain tax considerations) the termination notice required to be provided by a lender is not automatically adjusted to accommodate any longer settlement cycles that may be applicable to foreign securities.

The parties may wish to consider amending Paragraph 2 of the Annex to require Buyer also to provide more than one business dayís notice upon terminating a Transaction in Equity Securities, in order to allow Seller additional time to arrange alternative funding to replace the terminated Transaction. In addition, Annex VIII provides the parties with the flexibility to modify the definition of Standard Settlement Date. Parties may wish to specify whether any deviation from the standard settlement cycle for the relevant Security may be agreed to orally or whether such agreement must be expressed in writing. For the reasons indicated above, the parties also should consider the extent to which a notice period that is shorter than the standard settlement cycle for a particular Security may limit the ability of Buyer to transfer the Security to a third party (e.g., because Buyer may not be able to obtain the Security in time to return it to Seller on the applicable date).

Margin Maintenance. Under Paragraphs 4(a) and 4(b) of the Agreement, Margin Deficit and Margin Excess are determined with respect to all outstanding Transactions unless, pursuant to Paragraph 4(f), the parties agree that margin rights may be exercised with respect to certain Transactions without regard to any other Transactions under the Agreement. Paragraph 3 of the Annex provides the parties with the additional option of agreeing to permit the exercise of margin rights with respect to certain classes of Transactions (such as Transactions in Equity Securities) without regard to any other classes of Transactions under the Agreement (such as Transactions in non-Equity Securities). This optional provision is intended to provide flexibility for parties which do not have the capability, from an operational perspective, to calculate and monitor their exposures for all Transactions in both Equity Securities and non-Equity Securities on an aggregate basis. Before adopting the approach set forth in Paragraph 3 of the Annex, however, each party should consider the credit issues that may arise if it fails to exercise its rights to make a margin call in respect of a class of Transactions in circumstances where a potentially insolvent counterparty has made a margin call on a separate class of Transactions.

Parties may also wish to consider adopting, in Schedule VIII.A or otherwise, more general "cross-netting" provisions (e.g., providing for cross-default and setoff rights) to cover multiple types of securities transactions with the same counterparty, such as Transactions under the Agreement and securities loans effected under the Master Securities Loan Agreement.

Dividends, Distributions, etc. Paragraph 4 of the Annex confirms that, as currently contemplated under Paragraph 5 of the Agreement, Seller is entitled to receive an amount equal to all Income paid or distributed on or in respect of Purchased Securities not otherwise received by Seller (through The Depository Trust Company ("DTC") or otherwise). Income in the form of cash is treated in accordance with Paragraph 5 of the Agreement. The Annex modifies Paragraph 5, however, with respect to Income in the form of non-cash distributions (e.g., stock dividends or stock split ups) by requiring such non-cash distributions to be added to the Purchased Securities

and considered such for all purposes. This modification -- which is consistent with the approach to non-cash distributions under Section 7.2 of the Master Securities Loan Agreement -- is intended to protect the ability of Buyer to use the Purchased Securities to satisfy an outstanding delivery obligation (since Buyerís transfer to Seller of such non-cash distributions might otherwise effectively dilute the amount of Purchased Securities available to Buyer under the relevant Transaction).

Payment and Transfer. Paragraph 5 of the Annex permits transfers of Equity Securities to be effected through DTC. Where parties use this Annex together with Annex III (International Transactions), Paragraph 5(a) of Annex III will require Seller to pay any transfer taxes, stamp taxes and similar costs with respect to the transfer of Securities. Where parties are not using Annex III, they may wish to specify whether Buyer or Seller will be responsible for any transfer costs.

The parties should note that there are a variety of mechanisms pursuant to which transfers of Equity Securities may occur. The parties should consider how any particular transfer mechanism, through DTC or otherwise, will affect their rights, including with respect to the voting of the Purchased Securities, the retransfer of Purchased Securities and the receipt of any Income from the Purchased Securities. The parties should also consider the effect of any transfer option on the characterization of the Transaction for purposes of applicable tax, bankruptcy, securities or other laws and on the priority of Buyerís interest in the Purchased Securities as against third parties under applicable law.

Additional Representations. Unless the parties otherwise agree, each party is required to represent under Paragraph 6 of the Annex that on the date of any transfer of Equity Securities by such party, the Securities are not "control" or "restricted" Securities subject to restrictions on transfer under the Securities Act. This representation is required to be made by the transferor because at the time of the transfer it is in a better position to make the relevant determinations regarding the Securities transferred. Parties may engage in Transactions involving "control" or "restricted" Securities by agreeing that the representations in Paragraph 6 shall not apply and by making such other representations or covenants as may be appropriate.

The parties may also wish to include, in Schedule VIII.A or otherwise, representations regarding the status of any Transactions in Equity Securities under the margin regulations of the Board. For example, as discussed under "Background" above, Transactions in which certain qualifying broker-dealers act as Sellers are exempted under the Exchange Act from any federal margin regulations. A party acting as Buyer in Transactions in which Seller is a broker-dealer obtaining credit in excess of such margin regulations therefore may wish to obtain a representation from such broker-dealer that it qualifies for this exemption. The following is a sample form of such representation:

> "***Additional Representation***. [Broker-dealer] represents and warrants that it is a member of a national securities exchange in the United States or registered as a broker or dealer with the U.S. Securities and Exchange Commission and either (A) a substantial portion of its business consists of transactions with persons other than brokers or dealers or (B) it is entering into each Transaction involving Equity Securities in which it is acting as Seller to finance its activities as a market maker or an underwriter."
>
> The use of the term "to finance" in clause (B) of this representation, which directly tracks the statutory language of Exchange Act Sections 7(c)(2)(B) and 7(d)(2)(C), is intended to

describe the use of the proceeds of a sale of Securities in a Transaction rather than to characterize the nature of such Transaction. In addition to or in lieu of the foregoing representation, Buyer may wish to obtain a representation from a broker-dealer acting as Seller that it is an "exempted borrower" within the meaning of the Boardís Regulations T and U, as in effect from time to time.

In addition, the parties should consider carefully (and seek appropriate advice from their legal advisors regarding) the potential application of other legal restrictions on ownership or transfer to Transactions in Equity Securities. For example, the Exchange Act contains extensive provisions regarding corporate finance and governance issues and imposes a variety of requirements on transactions by certain holders of Equity Securities. A number of questions may arise as to the application of these provisions of the federal securities laws to Transactions in Equity Securities. In addition, numerous other federal and state statutes, including, for example, the Bank Holding Company Act, the Communications Act and the Public Utility Holding Company Act, regulate the ownership or transfer of particular classes of Equity Securities issued by certain U.S. corporations. Moreover, statutes such as the Hart-Scott-Rodino Antitrust Improvements Act may impose notice or other requirements on, among other things, certain acquisitions of Equity Securities. Parties entering into Transactions involving Equity Securities may wish to consider, on a case-by-case basis, obtaining appropriate representations from their counterparties regarding the application of these and other statutes or regulations to such Transactions.

Rights of Buyer in Purchased Securities. With respect to voting rights, Paragraph 7 of the Annex provides that during the term of a Transaction (i.e., until Buyer is required to return the Purchased Securities), Seller transfers all rights to vote the Purchased Securities to Buyer -- an approach consistent with permitting Buyer to retransfer the Securities in separate transactions. Parties may amend this Paragraph in Schedule VIII.A or otherwise to address particular transactions in which the transfer of voting rights is not possible or desirable. For example, transactions effected through DTCís "Whole Interest Transfer" system may not result in a transfer of voting rights to Buyer. Where the Securities are being held by a third party subject to a tri-party custodial arrangement, moreover, the parties may wish to consider providing that in connection with any votes, consents, or other actions Buyer will use reasonable efforts to act in accordance with such instructions as may be timely provided by Seller. Parties should consider the effect that any such covenants of Buyer regarding the exercise of voting rights with respect to the Purchased Securities may have from a corporate law and governance perspective and on the characterization of the Transaction as a "sale" under applicable law or, if any Transactions are deemed to be loans, on whether Buyer has a perfected security interest in the Purchased Securities under applicable law.

The parties may also wish to consider amending Paragraph 7 to require Buyer to provide Seller with notice of corporate events occurring with respect to any Equity Securities (e.g., a rights offering) and an opportunity to exercise certain rights in connection with such events. Under Paragraph 9(a) of the Agreement, the parties currently have the flexibility to agree to permit Seller to substitute other Securities for any Purchased Securities that may be affected by any corporate events. In connection with certain such events, however, Seller may wish to have the ability to demand a substitution of other Securities for the affected Purchased Securities or to terminate the relevant Transaction (as if it were a demand Transaction). In reviewing any such amendments, Buyer should carefully consider its ability, upon a termination or substitution by

Seller, to recall or find an alternative source for any particular Equity Securities it has transferred to a third party.

The following is a sample form of amendment providing Seller with notice of corporate events and the right to terminate upon such notice:

> "**Notice of Corporate Actions**. In relation to Purchased Securities that are Equity Securities, Buyer shall notify Seller (as soon as possible but in any event within two business days after the day on which a holder of such Purchased Securities would in the normal course have received such notice from the issuer) of any notice issued by the issuer of such Securities to the holders of such Securities relating to any proposed conversion, subdivision, consolidation, takeover, preemption, option or other similar right or event affecting such Securities or of any Income payment declared in respect of such Securities. Whether or not such notice is received from Buyer, upon the issuance of any such notice issued by the issuer Seller may cause the Transaction to be terminated in accordance with Paragraph 3 of the Agreement as if the Transaction were a demand Transaction."

Events of Default. Paragraph 8 of the Annex clarifies that the failure to perform any covenant or obligation under the Annex constitutes an Event of Default under the Agreement. Paragraph 8 also incorporates the notice periods otherwise applicable under Paragraphs 4 or 5 the Agreement (including either the August 1987 or September 1996 versions of the Agreement), to the extent that such Paragraphs are supplemented and amended by Paragraphs 3 or 4, respectively, of the Annex.

Market Value. Paragraph 9 of the Annex specifies the methods for determining the Market Value of any Equity Securities. These provisions, which are based on the methodology for determining market values in Section 15 of the Master Securities Loan Agreement (updated to reflect changes in the over-the-counter markets), permit Equity Securities traded primarily within the United States to be valued based on their last reported sale prices (where available) and Equity Securities principally cleared and settled outside the United States to be valued in accordance with market practice in the principal market for such Securities.

Additional Covenant. Paragraph 10 clarifies the understanding of the parties that Transactions covered by the Annex will not be subject to the provisions of any securities exchange regarding "exchange contracts". This Paragraph is based on a similar covenant in Section 10.5 of the Master Securities Loan Agreement.

Additional Issues.

Transfers of Purchased Securities by Buyer. The Annex does not modify the right of Buyer, under Section 8 of the Agreement, to engage in repurchase transactions with the Purchased Securities or otherwise to sell, transfer, pledge or hypothecate the Purchased Securities. Sellers should consider whether any such restrictions on transfer would be appropriate from a credit perspective or otherwise, and Buyers should consider the relative importance of retaining the flexibility to transfer Purchased Securities (e.g., to satisfy a delivery obligation). In addition, each of the parties should consider the effect that any restrictions on transfer may have on the characterization of a Transaction as a "sale" under applicable law or, if any Transactions are deemed to be loans, the effect of any such restrictions on transfer on whether Buyer has a perfected security interest in the Purchased Securities subject to the Transactions under applicable law. The parties should also consider and consult with their tax advisors regarding the relative advantages and

disadvantages for Buyer and Seller from a tax perspective, including with regard to the tax benefits of ownership of the Purchased Securities, of (i) permitting Buyer to transfer or hypothecate the Purchased Securities, including under terms that comply with the requirements of Section 1058(b) of the Internal Revenue Code, (ii) prohibiting Buyer from transferring or hypothecating the Purchased Securities, or (iii) limiting the term of the Transaction so that it terminates some time prior to a dividend record date. Such advantages and disadvantages may include the availability of the dividends-received deduction (to the extent not limited by holding period rules, rules relating to the debt-financing of equity securities or other limitations), the availability of foreign tax credits for withholding taxes on dividends and the effect of treating an equity security as having been disposed of for tax purposes.

Cross-Border Tax Issues. The Annex does not include any provisions specifically addressing cross-border tax issues. Parties should consult with their tax advisors regarding the appropriate tax treatment of Transactions involving Equity Securities and the potential application of withholding tax to payments made thereunder or to dividends received on Purchased Securities, particularly where such Transactions involve non-U.S. Securities or where such parties include non-U.S. persons. Parties may also wish to consider the use of Annex III, which contains provisions applicable to withholding and certain other taxes, for Transactions in Equity Securities that are International Transactions or that involve International Securities, as defined therein.

Periodic Payments of Price Differential. The parties may wish to consider amending the Agreement to provide for periodic payments of the Price Differential by Seller (rather than an aggregate payment by Seller upon termination of the Transaction, as provided under the Agreement). Such periodic payments -- which would be consistent with the periodic payment of loan fees and cash collateral fees in borrowings of Equity Securities under Section 4 of the Master Securities Loan Agreement -- may be attractive to parties who wish to more closely conform certain operational aspects of a Transaction in Equity Securities to current market practice with respect to securities lending transactions involving such Securities.

The following is a sample form of amendment permitting the parties to agree to such periodic payments on a Transaction-by-Transaction basis:

> "**Periodic Payments of Price Differential**. Buyer and Seller may agree that, with respect to any Transaction under the Agreement, Seller shall pay to Buyer: (i) on the [fifteenth day] of the month (or, if such [fifteenth day] is not a business day, on the next business day) following each calendar month during which any part of such Transaction has occurred, the Price Differential determined as of the last day of such preceding calendar month, and (ii) on the termination date of such Transaction, the Price Differential determined as of such termination date. Notwithstanding the foregoing, Seller shall remain obligated to pay Buyer the Repurchase Price with respect to any Transaction (including any unpaid Price Differential, as specified in the Agreement) immediately upon the occurrence of an Event of Default with respect to Seller."

Annex IX

Transactions Involving Certain Japanese Financial Institutions

This Annex IX forms part of the Master Repurchase Agreement dated as of _____ (the "Agreement") between _____ and _____. Capitalized terms used but not defined in this Annex IX shall have the meanings ascribed to them in the Agreement. Paragraph references are to paragraphs in the Agreement unless otherwise set out herein.

1. This Annex IX shall apply only to those Transactions where (a) one of the parties is, and the other party is not, resident in Japan for tax purposes and (b) where the parties have agreed that the Securities (whether Purchased Securities or Additional Purchased Securities) utilized in Transactions conducted pursuant to the Agreement will comprise or include Exempt Securities. For the purposes of this Annex IX, "Exempt Securities" means Securities which are specified in the Tax Special Measurement Law (*sozei tokubetsu sochi hou*) of Japan (Law No.26 of 1957), as amended (the "Tax Special Measurement Law"), and the Cabinet Order of the Tax Special Measurement Law (Cabinet Order No.43 of 1957), as amended (the "Cabinet Order"), for the purpose of the exemption from the withholding of the interests received from certain Japanese financial institutions as specified in the Tax Special Measurement Law and the Cabinet Order, with respect to the transactions of sale and repurchase of, or those of the sale and purchase with buy/sell back conditions of, Securities; provided that such transactions meet the requirements as provided in the relevant laws and regulations. Notwithstanding the above, this Annex IX shall not apply to any Transactions which utilize Securities (whether Purchased Securities or Additional Purchased Securities) issued in Japan (including, for example, Securities issued by a private entity organized under the laws of Japan, or those issued by public or Japanese government entities, such as Japanese Government Bonds).

2. In the event of any conflict between the terms and conditions of this Annex IX and any other term of the Agreement or any Annex to the Agreement, the terms in this Annex shall prevail to the extent of such inconsistency.

3. Delete "or other assets" between the word "securities" and "("Securities")" in the second line of Paragraph 1.

4. Notwithstanding Paragraph 2, clauses (a)(i) and (a)(ii) in the Master Repurchase Agreement, "Act of Insolvency" shall occur with respect to any party hereto immediately upon the voluntary or involuntary filing of a petition in respect of it (including by the counterparty to the Agreement in respect of any obligation under the Agreement) with any court in Japan for the bankruptcy (*hasan*), corporate reorganization (*kaisha kosei*) or civil rehabilitation (*minji saisei*) of such party (the "Close-out Netting Event").

5. For the avoidance of doubt, and in addition to any other remedies available to the parties under Paragraph 11, immediately upon the occurrence of a Close-out Netting Event, regardless of the intent of the parties, without taking any procedure or entering into any arrangement, such as a notice or demand from one party to the other or any

agreement between the parties, the sum due from one party in respect of all Transactions under the Agreement shall be set off against the sum due from the other in respect of all Transactions under the Agreement and only the balance shall be due and payable and constitute a single obligation or claim; provided that the conversion or valuation of the currency or the Securities for the purpose of the set-off shall be made in accordance with the Enforcement Regulations for the Law concerning Close-out Netting of Specified Transactions Entered into by Financial Institutions, etc. (The joint Ministerial Ordinance of the Prime Minister's Office and Ministry of Finance No.48 of 1998). In the event that (a) Annex III to the Agreement has been executed and made part of the Agreement, and (b) the conversion or valuation described in the prior sentence conflicts with the Contractual Currency, the conversion or valuation described in the prior sentence will prevail.

6. Add the following clause to Paragraph 19:

"(e) It is understood that this Agreement is intended to constitute a "Master Agreement" as defined in the Law concerning Close-out Netting of Specified Financial Transactions Entered into by Financial Institutions, etc. (Law No.108 of 1998), as amended (the "Close-out Netting Law") and if any provision concerning the netting or set-off contained in the Agreement or Annexes is inconsistent with or conflicts with the provisions of the Close-out Netting Law, the Enforcement Regulations for the Close-out Netting Law (the "Enforcement Regulations"), or the Enforcement Order for the Close-out Netting Law (the "Close-out Cabinet Order"), then the provisions of the Close-out Netting Law, Enforcement Regulations or the Close-out Cabinet Order shall prevail."

Except as amended herein, the Agreement shall continue to have full force and effect in all respects.

The logo on this form may have been updated. The content of this document has not been modified since its original website posting. In light of rapidly changing business and regulatory environments, current accuracy cannot be assured.

MITSUI, YASUDA, WANI & MAEDA

14-32, Akasaka 2-chome, Minato-ku
Tokyo 107-0052, Japan

Telephone: (03)3224-0020
Facsimile: (03)3224-0030
(03)3224-0040
(03)3224-3444
(03)3224-3455
Cable: MYWMTYO
Telex: J33276 MYWMTYO

October 25, 2002

To: The Bond Market Association
40 Broad Street
New York, NY 10004
U.S.A.

Re: Japanese Annex IX to MRA

1. Introduction

You have asked us to render a legal opinion with respect to Annex IX to the Master Repurchase Agreement ("MRA"). Subject to paragraph 5 below, we are of the opinion that:

a. Under the Japanese Tax Law, in order for Repo Transactions to be eligible for the exemption from withholding tax on the price differential between the initial purchase price of the Securities and the price of the repurchase or selling back of the Securities that a seller pays on certain cross border repurchase or buy and sell back transactions (the "Price Differential"), such Repo Transactions must be conducted pursuant to documentation which contains an agreement on Close-out Netting as defined in the Law concerning Close-out Netting of Specified Financial Transactions Entered into by Financial Institutions, etc. (Law No. 108 of 1998), as amended (the "Close-out Netting Law") (an unofficial translation of which is attached to this opinion as Exhibit I); and

b. The MRA as amended by Annex IX (the "Amended MRA") meets the requirement under the Close-out Netting Law.

2. Definitions

Unless otherwise defined in this legal opinion, capitalized terms used herein have the same meanings as defined in the MRA and Annex IX to the MRA.

In this opinion

a. "Amended MRA" has the meaning specified in Section 1 above.

b. "Close-out Event" is defined in the Close-out Netting Law as the filing of a petition for bankruptcy or an application for commencement of civil rehabilitation or corporate reorganization proceedings.

c. "Close-out Netting" is defined in the Close-out Netting Law as a procedure by which, upon occurrence of a Close-out Event with respect to a party to the Specified Financial Transactions entered into under a Master Agreement and regardless of both parties' intentions, the value upon the occurrence of a Close-out Event of each of the Specified Financial Transactions under the Master Agreement shall be computed in accordance with the provisions of the Enforcement Rules for Close-out Netting Law, and the aggregate net balance shall become a single claim or

obligation arising between the parties.

d. "Close-Out Netting Law" has the meaning specified in Section 1 above.

e. "Enforcement Order for Close-out Netting Law" means the Enforcement Order for the Law concerning Close-out Netting of Specified Financial Transactions Entered into by Financial Institutions, etc. (Cabinet Order No. 371 of 1998), as amended, an unofficial translation of which is attached to this opinion as Exhibit II.

f. "Enforcement Order for Tax Special Measurement Law" means the Enforcement Order for Tax Special Measurement Law (Cabinet Order No. 43 of 1957), as amended.

g. "Enforcement Rules for Close-out Netting Law" means the Enforcement Rules for the Law concerning Close-out Netting of Specified Financial Institutions Entered into by Financial Institutions, etc. (Joint ministerial ordinance of the Prime Minister's Office and the Ministry of Finance No. 48 of 1998), as amended, an unofficial translation of which is attached hereto as Exhibit III.

h. "Enforcement Rules for Tax Special Measurement Law" means the Enforcement Rules for Tax Special Measurement Law (Ministry of Finance ministerial ordinance No. 15 of 1957), as amended.

i. "Financial Institution, etc." has the meaning specified in the Close-out Netting Law.

j. "Interest Rate Fluctuations, etc." is defined in the Close-out Netting Law as fluctuations in interest rates, currency rates, quotations on securities markets and other indexes as well as inter-market differential, etc.

k. "Japanese Tax Law" means the Japanese tax reform law which has become effective as of April 1, 2002.

l. "Master Agreement" is defined in the Close-out Netting Law as an agreement intended to govern two or more Specified Financial Transactions to be entered continuously by and between a Financial Institution, etc. and its counterparty, thereby stipulating the terms and conditions of such transactions and other basic matters relating thereto.

m. "MRA" has the meaning specified in Section 1 above.

n. "Price Differential" has the meaning specified in Section 1 above.

o. "Repo Transactions" mean certain cross-border repurchase or buy and sell back transactions under which one party ("Party A") sells securities to another party ("Party B") upon condition that Party A will repurchase the securities from the Party B, or the Party B will sell back the securities to the Party A, at such price and at such time as mutually agreed upon between the both parties.

p. "Specified Financial Transactions" is defined in the Close-out Netting Law as (1) over-the-counter securities derivatives transactions as provided in Article 2, paragraph 8, item 3-2 of the Securities and Exchange Law (Law No. 25 of 1948) and (2) certain other transactions, where a party thereto agrees to pay to the other party an amount calculated based on Interest Rate Fluctuations, etc. and any other transactions which are conducted by the use of Interest Rate Fluctuations, etc., as may be designated by the Enforcement Rules for Close-out Netting Law. According to the Enforcement Rules for Close-out Netting Law, Repo Transactions are

designated as Specified Financial Transactions.

3. Exemption from Japanese Tax Law

The Japanese Tax Law imposes an obligation on a Japanese entity to withhold tax on the Price Differential that it pays on Repo Transactions it has entered into with a non-Japanese entity. Under the Tax Special Measurement Law and Enforcement Order for Tax Special Measurement Law, both of which have been amended effective as of April 1, 2002, however, Repo Transactions of certain securities which meet the following criterion will be exempted from the withholdings on the Price Differential, provided that the other requirements provided in the Tax Special Measurement Law, the Enforcement Order for Tax Special Measurement Law and the Enforcement Rules for Tax Special Measurement Law are met:

a. The period between the date of the sale (or purchase) of the securities and the date of the redemption (or selling back) of the securities does not exceed six (6) months.

b. There is an agreement on close-out netting as provided in Article 3 of the Close-out Netting Law with respect to Repo Transactions.

c. An agreed price of the securities of the Repo Transactions at which the Seller sells such securities to the Buyer is equal to or less than the market price of such securities as on the day of the agreement. The price and time of repurchasing (or selling back) the securities may be agreed after the Repo Transactions are commenced, instead of being agreed to at the time of entering into the Repo Transactions.

4. Amended MRA

The MRA, as amended by Annex IX (the "Amended MRA"), contains the provisions of an agreement of the Close-out Netting as provided in the Close-out Netting Law, since:

a. the Japanese insolvency proceedings in respect of which the Close-out Netting Law apply are included in the definition of the "Act of Insolvency";

b. under the Amended MRA, the netting will take place automatically without any procedure being taken or any arrangement being made, and regardless of the interest of the parties, once any Act of Insolvency occurs;

c. in particular, under the Amended MRA, once a Japanese counterparty files the petition to either the bankruptcy proceeding, the civil rehabilitation proceeding or the corporate reorganization proceeding, the close-out netting of the transactions entered by the Japanese counterparty will automatically take place in accordance with the provision of the Amended MRA, without any act by the parties to the Amended MRA; and

d. under the Amended MRA, the conversion or valuation of the currency or the securities for the purpose of the set-off will be made in accordance with the Enforcement Rules for the Close-out Netting Law.

There are other requirements for the exemption from withholdings. However, since the purpose of this opinion is not to illustrate or provide the complete contents of or comprehensive advice

about the exemption from the withholding, we do not address other requirements in this opinion.

5. Qualifications

Our opinion is subject to the following qualifications:

a. The scope of our opinion is strictly limited with respect to those issues which are set forth in the first paragraph of this opinion and the same concerning Japanese laws effective as of the date of this opinion.

b. This opinion should not be considered or interpreted as a tax opinion. As the requirements for the exemption from the withholding are complicated, the parties who will use the Amended MRA or intend to avail themselves of the exemption from the withholding under the Japanese Tax Law with respect to Repo Transactions entered by it are recommended to consult with their own tax advisers.

This opinion is given for the sole benefit of TBMA (including branches) and their members and may not be copied to, disclosed to or relied upon by any other person without our prior written consent.

Yours faithfully,

Yoshitaka Ogino

-UNOFFICIAL TRANSLATION-
REFERENCE SHOULD BE MADE TO THE OFFICIAL JAPANESE TEXT BEFORE ANY ACTION IS TAKEN TO WHICH THE LAW MAY APPLY.

Law concerning Close-out Netting of Specified Financial Transactions entered into by Financial Institutions, etc. (English Translation)

(Purpose)

Article 1 This law intends to clarify the handling in Bankruptcy Proceedings, etc. of Close-out Netting of Specified Financial Transactions to which a Financial Institution, etc. is a party, in order to ensure stable settlement of such transactions entered into by a Financial Institution, etc. and thereby to facilitate such transactions, with the aim of contributing to the enhancement of confidence in the Japanese financial system domestically and abroad and the sound development of the national economy.

(Definition)

Article 2 In this law, the term "Specified Financial Transaction(s)" means, (1) over-the-counter securities derivatives transactions as provided in Article 2, paragraph 8, item 3-2 of the Securities and Exchange Law (Law No. 25 of 1948) and (2) certain other transactions, where a party thereto agrees to pay to the other party an amount calculated based on fluctuations in interest rates, currency rates, quotations on securities markets and other indexes as well as inter-market differentials, etc. ("Interest Rate Fluctuations, etc.") and any other transactions which are conducted by the use of Interest Rate Fluctuations, etc, as may be designated by a Ministerial Ordinance of the Prime Minister's Office and the Ministry of Finance.

2 In this law, the term "Financial Institution, etc." means any of the following juridical persons:-

(i) Banks as defined in Article 2, paragraph 1 of the Banking Law (Law No. 59 of 1981), and long-term credit banks as defined in Article 2 of the Long-term Credit Banking Law (Law No. 187 of 1952);

(ii) Securities companies as defined in Article 2, paragraph 9 of the Securities and Exchange Law, and foreign securities firms as defined in Article 2, paragraph 2 of the Law on Foreign Securities Firms (Law No. 5 of 1971); and

(iii) Other juridical persons which are granted a business license or registered under Japanese laws and regulations or established by special laws and which are designated by Cabinet Order as conducting Specified Financial Transactions in substantial scope for the account of themselves or their customers.

3 In this law, the term "Bankruptcy Proceedings, etc." means bankruptcy proceedings, civil reconstruction proceedings, or corporate reorganization proceedings.

4 In this law, the term "Close-out Event" means the filing of a petition for bankruptcy or an application for commencement of civil reconstruction or corporate reorganization proceedings.

5 In this law, the term "Master Agreement" means an agreement intended to govern two or more Specified Financial Transactions to be entered continuously by and between a Financial Institution, etc. and its counterparty, thereby stipulating the terms and conditions of such transactions and other basic matters relating thereto.

6 In this law, the term "Close-out Netting" means a procedure by which, upon occurrence of a Close-out

Event with respect to a party to the Specified Financial Transactions entered into under a Master Agreement and regardless of both parties' intentions, the value at such occurrence of each of the Specified Financial Transactions under the Master Agreement shall be computed in accordance with the provisions of a Ministerial Ordinance of the Prime Minister's Office and the Ministry of Finance, and the aggregate net balance shall become a single claim or obligation arising between the parties.

(Treatment of Close-out Netting in Bankruptcy Proceedings, etc.)

Article 3 Where a party in respect of whom an adjudication of bankruptcy or an order to commence civil reconstruction or corporate reorganization proceedings ("Bankruptcy Adjudication, etc.") is made or its counterparty is a Financial Institution, etc. and the parties have been engaging in Specified Financial Transactions under a Master Agreement providing for Close-out Netting, then, "properties" or "claims" which are provided for in each of the following laws and are held by either of such parties in respect of all such transactions under such an agreement shall constitute, a single claim arising pursuant to such provision due to the occurrence of a Close-out Event preceding such Bankruptcy Adjudication, etc. and payable to the person in respect of whom a Bankruptcy Adjudication, etc. has been made or its counterparty, as the case may be.

(i) The Bankruptcy Law (Law No. 71 of 1922): Properties belonging to the bankruptcy estate; or bankruptcy claims;

(ii) The Civil Reconstruction Law (Law No. 225 of 1999): Properties belonging to the obligor as at the time of commencement of civil reconstruction proceedings; or civil reconstruction claims;

(iii) The Corporate Reorganization Law (Law No. 172 of 1952) or the Law concerning Special Treatment of Reorganization and Bankruptcy Procedures for Financial Institutions, etc. (Law No. 95 of 1996)(the "LSTR"): Properties which belong to the stock company, the cooperative financial institution (as defined in Article 2, paragraph 2 of the LSTR) or the mutual company (as defined in Article 2, paragraph 6 of the LSTR), as the case may be, as at the time of commencement of corporate reorganization proceedings; or corporate reorganization claims.

Supplementary Provision:
This law shall come into force as of December 1, 1998.

-UNOFFICIAL TRANSLATION-
REFERENCE SHOULD BE MADE TO THE OFFICIAL JAPANESE TEXT
BEFORE ANY ACTION IS TAKEN TO WHICH THE ORDER MAY APPLY.

November 20, 1998

Cabinet Order No. 371

The Enforcement Order for The Law concerning Close-out Netting of Specified Financial Transactions Entered into by Financial Institutions, etc. (English Translation)

The Cabinet hereby enacts this Cabinet Order pursuant to Article 2, paragraph 2, item (iii) of the Law concerning Close-out Netting of Specified Financial Transactions entered into by Financial Institutions, etc. (The Law No. 108 of 1998).

Juridical persons designated by the Cabinet Order referred to in Article 2, paragraph 2, item (iii) of the Law concerning Close-out Netting of Specified Financial Transactions entered into by Financial Institutions, etc. (The Law No. 108 of 1998) shall be the following:

1. Insurance Companies (*Hoken Kaisha*) and Foreign Insurance Companies etc. (*Gaikoku Hoken Kaisha tou*) as defined in Article 2, paragraph 7 of the Insurance Business Law (The Law No. 105 of 1995);

2. Zenshinren Bank (*Zenkoku Shin-yo Kinko Rengo Kai*);

3. Norin Chukin Bank (*Norin Chuo Kinko*);

4. Shoko Chukin Bank (*Shoko Kumiai Chuo Kinko*);

5. Securities Finance Companies (*Shoken Kin-yu Kaisha*) as defined in Article 2, paragraph 21 of the Securities and Exchange Law (The Law No. 25 of 1948); and

6. Other juridical persons prescribed in Article 1, paragraph 3 of the Enforcement Order for the Law concerning Regulation of Money Lending Business (Cabinet Order No. 181 of 1983)

Supplementary Provision:

This Cabinet Order shall come into effect as of the date when the Law concerning Close-out Netting of Specified Financial Transactions entered into by Financial Institutions, etc. shall become effective (December 1, 1998).

-UNOFFICIAL TRANSLATION-
REFERENCE SHOULD BE MADE TO THE OFFICIAL JAPANESE TEXT
BEFORE ANY ACTION IS TAKEN TO WHICH THE ORDINANCE MAY APPLY.

The Joint Ministerial Ordinance of the Prime Minister's Office and the Ministry of Finance No. 48

Pursuant to the provision of Article 2, paragraphs 1 and 6 of the Law concerning Close-out Netting of Specified Financial Transactions entered into by Financial Institutions, etc. (The Law No. 108 of 1998), the Enforcement Rules for the Law concerning Close-out Netting of Specified Financial Transactions entered into by Financial Institutions, etc. shall be enacted as follows.

November 27, 1998

Prime Minister Keizo Obuchi
Finance Minister Kiichi Miyazawa

The Enforcement Rules for The Law concerning Close-out Netting of Specified Financial Transactions Entered into by Financial Institutions, etc. (English Translation)

(Specified Financial Transactions)

Article 1 The Transactions designated by the Joint Ministerial Ordinance of the Prime Minister's Office and the Ministry of Finance referred to in Article 2, paragraph 1 of the Law concerning Close-out Netting of Specified Financial Transactions entered into by Financial Institutions, etc. (hereinafter referred to as the "Law") shall be the following:

1. OTC Securities Derivative Transactions (*Yuka Shoken Tento Deribatibu Torihiki*) as defined in Article 2, paragraph 8, item 3-2 of the Securities and Exchange Law (*Shoken Torihiki Ho*) (Law No. 25 of 1948) and transactions where a party lends or deposits cash or securities to or with the other party for the purpose of securing the aforementioned Transactions (hereinafter referred to as the "Security Transactions").

2. Financial Derivatives Transactions etc. (*Kinnyu tou Deribatibu Torihiki*) as prescribed in Article 10, paragraph 2, item 14 of the Banking Law (*Ginko Ho*) (Law No. 59 of 1981) and the Security Transactions in relation thereto;

3. repurchase and reverse repurchase transactions of securities and the Security Transactions in relation thereto;

4. securities lending transactions and the Security Transactions in relation thereto;

5. certain bond purchase transactions where (i) one of the parties thereto retains the right to specify the settlement date, and (ii) if such right is not exercised during a certain period of time, such transaction shall be terminated, and the Security Transactions in relation thereto; and

6. forward foreign exchange transactions and the Security Transactions in relation thereto.

(Computation of Value)

Article 2 The value to be computed in accordance with the provisions of the Ministerial Ordinance of the Prime Minister's Office and the Ministry of Finance as prescribed by Article 2, paragraph 6 of the Law shall be the value fairly computed by reference to the actual conditions of interest rates, currency rates, quotations on securities markets and other indexes.

Supplementary Provision:

This Ministerial Ordinance shall come into effect as of the date when the Law shall become effective (December 1, 1998).

Webinar

Target Hardening of School Buildings

Deputy Chief MacDonald, Esq. Portsmouth, NH, will talk about school safety through the implementing of policies of target hardening and preparing for security related events or breaches. Practical advice that works. The recommendations are for school buildings and school grounds. All members of the school community are to be involved. Chief MacDonald is a former SRO. This is essential information to insure school safety. Chief MacDonald is recognized as a national leader in school safety. This represents one of the lessons from Sandy Hook tragedy. He is an attorney and a graduate of the Harvard Kennedy School of Government.

In this CD, you will learn:

- The steps to organize target hardening
- The most common mistakes and how to avoid them.
- What are the rules for rented cars?
- How to set up a maintenance plan.
- How to avoid the fortress mentality

"You will not hear a better or more professional speaker than Deputy Chief MacDonald, Esq"

Sgt. Andrew Obuchowski

Webinar

Connecting the dots..... Compstat for schools

The missing item in all school safety plans is a method to collect intelligence; to assess it and to act on it when necessary. Police have long used compstat to help reduce crime and Henry M. Quinlan, Esq. publisher of Omni Publishing Co. offers a modified version of compstat that schools and SROs can use to identify, to assess and to act on some potentials issues before they become problems.

In this webinar, you will learn:

- How sign posts were missed in so many past incidents of violence.
- The value of intelligence in a school setting.
- How to gather the most effective intelligence.
- How to assess that intelligence.
- How and when to act on the intelligence.
- This works for all size of schools.

This is knowledge every school administrators and SROs should know NOW!

Intelligence is the most valuable item when looking to prevent school violence and/or bullying in schools.

( ) Register me for the webinar Target Hardening – February 20, 2012 at 1 pm est $45.00
( ) Register me for the webinar Connecting the dots... – February 21, 2012 at 11 am est $45.00

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THE BOND MARKET ASSOCIATION

Guidance Notes to Annex IX

Transactions Involving Certain Japanese Financial Institutions

(Capitalized terms used but not otherwise defined in these guidance notes have the meanings given to them in the Master Repurchase Agreement (the "Agreement") and in Annex IX.)

A Japanese tax law, effective as of April 1, 2002 (the "Japanese Tax Law") has given rise to tax implications for certain cross-border repo transactions conducted between a Japanese financial institution and a non-Japanese financial institution. Although the current Agreement may be used to conduct such transactions, the Association has published Annex IX in order to allow such transactions to meet one of several requirements necessary in order for such transactions to be exempt from the Japanese Tax Law. These guidance notes briefly summarize key provisions of Annex IX and identify certain issues which parties entering into Annex IX may wish to be aware of.

These guidance notes should not be relied upon by any party to determine, without appropriate legal, accounting, tax or other relevant professional advice, whether to engage in particular transactions and whether the Agreement or Annex IX is suitable to its particular circumstances and needs.

Background: The Japanese Tax Law imposes an obligation on a Japanese financial institution to withhold tax on the Price Differential it pays on certain cross-border repo transactions it has entered into with a non-Japanese financial institution, unless such transactions are otherwise exempt. One of several requirements such transactions must meet in order to be exempt is to be conducted pursuant to documentation which meets certain Japanese netting law requirements. Annex IX is intended to supplement and modify the Agreement in order to allow it to meet such Japanese netting law requirements. (More information regarding the Japanese Tax Law is available on the Association's website at http://www.bondmarkets.com/regulatory/fund.shtml.)

Scope: Annex IX only applies to Transactions where one party is, and the other is not, resident in Japan for tax purposes. In addition, Annex IX applies only to Transactions which utilize Exempt Securities. Under the Japanese Tax Law, Exempt Securities include: foreign government debt (e.g. U.S. Treasuries), debt issued by "local authorities" (e.g. municipal bonds), and government-sponsored agency debt (e.g. Fannies and Freddies). The use of Exempt Securities in such Transactions is another one of several requirements such Transaction must meet in order to be exempt from the Japanese Tax Law.

Note that Annex IX does not apply to Transactions which utilize securities issued in Japan, such as JGBs. The use of Japan-issued securities in cross-border transactions raises additional tax issues which Annex IX does not address. Market participants may wish to use the Global Master Repurchase Agreement (GMRA), published jointly by the Association and the International Securities Markets Association, and the Japanese Securities Annex to the GMRA for Japanese cross-border repo transactions utilizing securities issued in Japan. (The Japanese Securities Annex to the GMRA is available on the Association's website at the following link: http://www.bondmarkets.com/eissues.shtml.)

Act of Insolvency: The definition of Act of Insolvency in the Agreement is amended by Annex IX. As amended, an Act of Insolvency includes Close-out Netting Events, which generally involve the voluntary or involuntary filing in respect of a party to the Agreement of insolvency-related proceedings in a Japanese court. In addition, Annex IX also amends the Agreement so that an Act of Insolvency shall occur immediately upon the occurrence of a Close-out Netting Event, notwithstanding provisions in the Act of Insolvency definition which might otherwise allow a

party to avoid triggering the occurrence of an Act of Insolvency, such as the fifteen-day grace period in the Agreement provided under Paragraph 2, clause (a)(ii)(C).

For the avoidance of doubt, Annex IX also sets out provisions for the immediate set-off of amounts due from one party to the Agreement to the other, in accordance with certain Japanese enforcement regulations.

Use with Annex III: Annex IX may be used separately from or in conjunction with Annex III to the Agreement, "International Transactions." As set out in Paragraph 5 of Annex IX, in the event of a conflict between the conversion or valuation used for purposes of the set-off of obligations in accordance with certain Japanese enforcement regulations and the definition of "Contractual Currency" in Annex III, the provisions of Paragraph 5 of Annex IX will prevail.

EXHIBIT 2

CERTIFICATION

I, _____, a Qualified Representative acting on behalf of _____, a business organization offering to engage in an investment transaction with Galveston County hereby certify that _____, has personally received, thoroughly reviewed, and understand the investment policies of Galveston County. _____, has also implemented reasonable procedures and controls designed to fulfill those objectives and conditions; to facilitate compliance with the County's Investment Policy; and to preclude investment transactions conducted between the County and the organization that are not authorized by the County's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the County's entire portfolio or requires an interpretation of subjective investment standards. Transactions conducted between this firm and Galveston County will be directed towards precluding imprudent investment activities and protecting the County from credit and market risk.

All the sales personnel of this firm dealing with Galveston County's account have been informed of the County's investment horizons, limitations, strategy and risk constraints.

This firm will notify the Investment Officer immediately by telephone and in writing in the event of a material adverse change in our financial condition.

The firm pledges to exercise due diligence in informing the Investment Officer of foreseeable risks associated with financial transactions connected to this firm.

Firm

Primary Representative

Signature

Name

Title

Date

Exhibit 3

GALVESTON COUNTY, TEXAS

Broker/Dealer Questionnaire

1. Name of firm _____

2. Address (Local)_____(National Offices)_____

_____

_____

_____

_____

3. Telephone Number (___)_____Local_____

(___)_____National Headquarters_____

4. Primary representative/manager/partner-in-charge

Name:_____ Name:_____

Title:_____ Title:_____

Telephone No. _( )_____ Telephone No. _( )_____

5. Are you a primary dealer in U.S. Government securities?

[ ] Yes [ ] No

6. If so, for how long has your firm been a primary dealer? _____ years

7. What was your firm's total volume in U.S. Government and agency securities trading last year?

Firm-wide _$_____ Number of transactions _____

Your local office _$_____ Number of transactions _____

8. Which instruments are offered regularly by your local desk?

[ ] T-bills
[ ] Treasury notes/bonds
[ ] Agencies (specify)_
[ ] _____
[ ] _____
[ ] Instruments
[ ] _____
[ ] _____

[ ] BAs (domestic)
[ ] BAs (foreign)
[ ] Commercial paper
[ ] Bank CDs
[ ] S & L CDs
[ ] Other (specify)
[ ] _____
[ ] _____

9. Identify all personnel who will be trading with or quoting securities to Galveston County employees.

Name	Title	Telephone Number
_____	_____	( )_____
_____	_____	( )_____
_____	_____	( )_____
_____	_____	( )_____
_____	_____	( )_____

10. Which of the above personnel have read our government's investment policies?

_____ _____
_____ _____

11. Please indicate which agents of your firm's local offices currently are licensed, certified, or registered, and by whom.

Agent	Licensed or Registered by
_____	_____
_____	_____
_____	_____

12. Please identify your public-sector clients in our geographical area who are most comparable to the County of Galveston.

Entity	Contact Person	Telephone No.	Client Since
_____	_____	( )_____	_____

_____( )_____
_____( )_____

13. Have any of your public-sector clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument? If so explain.

14. Have any of your public-sector clients ever reported to your firm, its officers, or employees, orally or in writing, that they sustained a loss (in a single year) exceeding 10 percent of original purchase price on any individual security purchased through your firm? Explain.

15. Has your firm ever been subject to a regulatory or state federal agency investigation for alleged improper, fraudulent, disreputable, or unfair activities related to the sale of government securities or money market instruments? Have any of your employees ever been so investigated by a regulatory, state, or other agencies? Explain.

16. Has a public-sector client ever claimed in writing that your firm was responsible for investment loss? Explain.

17. Please include samples of research reports that your firm regularly provides to public-sector clients.

18. Please explain your normal custody and delivery process. Who audits these fiduciary systems?

19. Please provide certified financial statements and other indicators regarding your firm's

capitalization.

20. Describe the capital line and trading limits that support/limit the office that would conduct business with Galveston County.

21. What training would you provide to our employees and investment officers?

22. Has your firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? As of this date, does your firm comply with the guidelines? Has your capital position ever fallen short? By what factor (1.5x, 2x, ect.) does your firm presently exceed the capital adequacy guidelines? Include certified documentation of your capital adequacy as measured by the Federal Reserve standards.

23. Do you participate in the SIPC insurance program? If not, explain why not.

24. What portfolio information do you require from your clients?

25. What reports, transactions, confirmations and paper trail will we receive?

26. Enclose a complete schedule of fees and charges for various transactions.

27. How many and what percentage of your transactions failed last month? Last Year?

28. Describe the precautions taken by your firm to protect the interests of the public when dealing

with governmental agencies as investors.

I attest to the accuracy of responses to this questionnaire.

Signed: _____
Date: _____

(Countersigned by company president or person in charge of government securities operations.)

_____

EXHIBIT 4

GALVESTON COUNTY

ANTI-COLLUSION AGREEMENT

I, _____ acting on behalf of _____, hereby certify and affirm that neither I nor my firm have entered into any agreement, contract, arrangement or understanding with any employee of Galveston County that in any manner would defraud the County;

Neither I nor my firm have entered into any agreement with any person that would conspire to affect the County of Galveston's Investments;

Neither I nor my firm have offered to give, nor intend to give at any time hereafter any economic opportunity, future economic opportunity, special discount, gratuity, loan or service to any employee(s) in connection with my business relationship with the County of Galveston;

Neither I nor my firm have utilized any information obtained in whole or in part as a result of my business relationship with the County of Galveston for personal economic gain or for the benefit of others.

Firm

Signature

Name

Title

Date

EXHIBIT 5

GALVESTON COUNTY

CAPITAL ADEQUACY GUIDELINE/FOCUS STATEMENT

In the case of banks and primary dealers, Galveston County requires a statement from any firm applying for broker/dealer approval stating that they currently comply with the Federal Reserve's Capital Adequacy Guidelines ("CAG").

All other applicant firms are required to provide a statement that they currently comply with all capital adequacy requirements as set forth by the National Association of Securities Dealers and the Securities and Exchange Commission, as reported in their quarterly Financial and Operation Combined Uniform Single Reports ("FOCUS"). The firm's latest FOCUS report is to be attached to this statement.

By signing below, the applicant states that it currently complies with either CAG or FOCUS requirements, that it will continue to do so and that it will immediately notify the County if it fails to continue to do so. The firm also agrees to, at least yearly, obtain independent certification by an outside auditor that the broker/dealer firm has complied with either the CAG or FOCUS standards over the previously audited period.

_____

FIRM

_____

SIGNATURE

_____

NAME

_____

TITLE

_____

DATE