



# NEWS RELEASE

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## Eligible Deposit Accounts and Eligible Investment Instruments

Rating and Investment Information, Inc. (R&I) has revised its approach regarding the criteria for eligible deposit accounts and types of eligible investments. R&I first released its criteria concerning eligible deposit accounts and eligible investment instruments in the press release "R&I's Approach to Excess Cash Management" dated November 1, 1999. The revisions to the previously released details are explained below.

### 1. Introduction

For securitized products, funds such as a cash reserve set up in advance or amounts collected from pledged assets normally will accumulate in a deposit account established at a financial institution during the period until they are allocated to principal and interest payments on the securitized product. This presents a risk the deposits will not be allocated to principal and interest payments on the securitized product if the financial institution where the deposit account is established should fail.

Furthermore, depending on the securitized product redemption method, the accumulated funds for some securitized products are invested by means other than a deposit. In these cases, there is a risk the funds for redemption of the securitized product will shrink if the value of the invested assets declines.

Because of such risks, R&I believes it is possible to assign a securitized product rating that is higher than the rating of the financial institution where the deposit account has been set up, or the rating of the invested assets (see Note 1), if the deposit account or invested assets satisfy certain criteria as described below.

### 2. Eligible Deposit Accounts

R&I has established rating criteria for deposit accounts corresponding to the ratings for securitized products. Accounts that fulfill these criteria are called eligible deposit accounts. The eligibility criteria for deposit accounts are shown in Figure 1.

In the event the financial institution at which the issuer will establish the deposit account does not have a short-term rating, it is possible to extract a short-term rating based on the Issuer Rating (Figure 2). An account also can be used if it is with a financial institution that R&I recognizes as eligible, even if the financial institution does not have an R&I rating (see Note 2). If the rating for the financial institution where a deposit account has been established is downgraded and no longer fulfills the rating criteria, the issuer must move the funds to an eligible deposit account as soon as possible (see Note 3).

Moreover, based on revision of the Deposit Insurance Law in December 2002, payment and settlement deposits that are (1) non-interest-bearing and (2) payable on demand and (3) can provide settlement services are now eligible for full protection under the deposit insurance system even after the elimination in April 2005 of the full guarantee for bank savings deposits. Therefore based on specific conditions, an account will be recognized as an eligible deposit account even if it does not meet the eligibility criteria (see Note 4).

(Figure 1: Eligibility criteria for deposit accounts)

Securitized Product Rating	AAA to AA-	A+ to BBB-
Deposit financial institution short-term rating	a-1 or higher	a-2 or higher

(Figure 2: Basic extraction of the short-term rating from the financial institution Issuer Rating)

Issuer Rating	Short-term Rating
AAA to AA-	a-1+
A+ to A-	a-1
BBB+ to BBB-	a-2

### 3. Eligible Investment Instruments

R&I authorizes the investing of accumulated amounts including collected funds based on certain criteria. Investment assets that fulfill these criteria are referred to as "eligible investment instruments."

Provided it fulfills rating criteria that are equivalent to the criteria for an eligible deposit account, an investment instrument will be recognized as an eligible investment instrument if that investment instrument will redeem at least the investment amount, denominated in the currency subject to the rating, at maturity or at termination before maturity. When there is a possibility the eligible investment instrument will not redeem at least the investment amount at a termination before maturity, R&I will add investment maturity criteria to the rating criteria (see Note 5). In this case, the investment instrument maturity date must be by a date that R&I can judge will not create administrative difficulties for executing the next principal and interest payment, and R&I will additionally set the limit for the time period shown in Figure 3 according to the rating of the investment instrument. There also may be cases where R&I will recognize Japanese Government Bonds or government-guaranteed bonds as an eligible investment instrument without establishing any rating criteria.

If the investment instrument no longer fulfills the rating criteria, the issuer must move the funds to an eligible investment instrument as soon as possible (see Note 3). For example, if funds have been invested in an investment instrument that must be rated a-1 + when the target rating is AAA, and R&I has lowered the rating for that investment instrument from a-1+ to a-1, the instrument would no longer be an eligible investment if the remaining period until maturity is more than three months.

#### < Examples of eligible investment instruments >

Bank deposits, CP, loans against a trust bank, Japanese Government Bonds, government-guaranteed bonds, unsecured call loans, CP gensaki, government bond repos (for CP gensaki and government bond repos, the rating for the transaction counterparty)

(Figure 3: Criteria regarding maturity period)

Securitized Product Rating	AAA to AA-	A+ to A-	BBB+ to BBB-
For cash management up to 3 months	a-1 or higher	a-2 or higher	a-2 or higher
For cash management over 3 months and within 6 months	a-1+	a-1 or higher	a-2 or higher

Note 1: Basically excludes cases where deposit accounts and investment assets are major underlying assets.

Note 2: This refers to an unpublicized evaluation of creditworthiness that is not based on an application from the relevant company. R&I notifies only the SPC's management agent and the bondholders' management company of this rating.

Note 3: Within roughly one month

Note 4: See the R&I News Release "R&I View on Commingling Risk of a Servicer that is a Financial Institution Covered by the Deposit Insurance System" dated March 3, 2005.

Note 5: Limitation on investment period will be added to reduce credit risk and price volatility risk of the investment instrument subject to the rating. However, an investment accompanying risk of termination before maturity will not be allowed in transactions where major assets are the investment instruments.