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DISCUSSION DOCUMENTS
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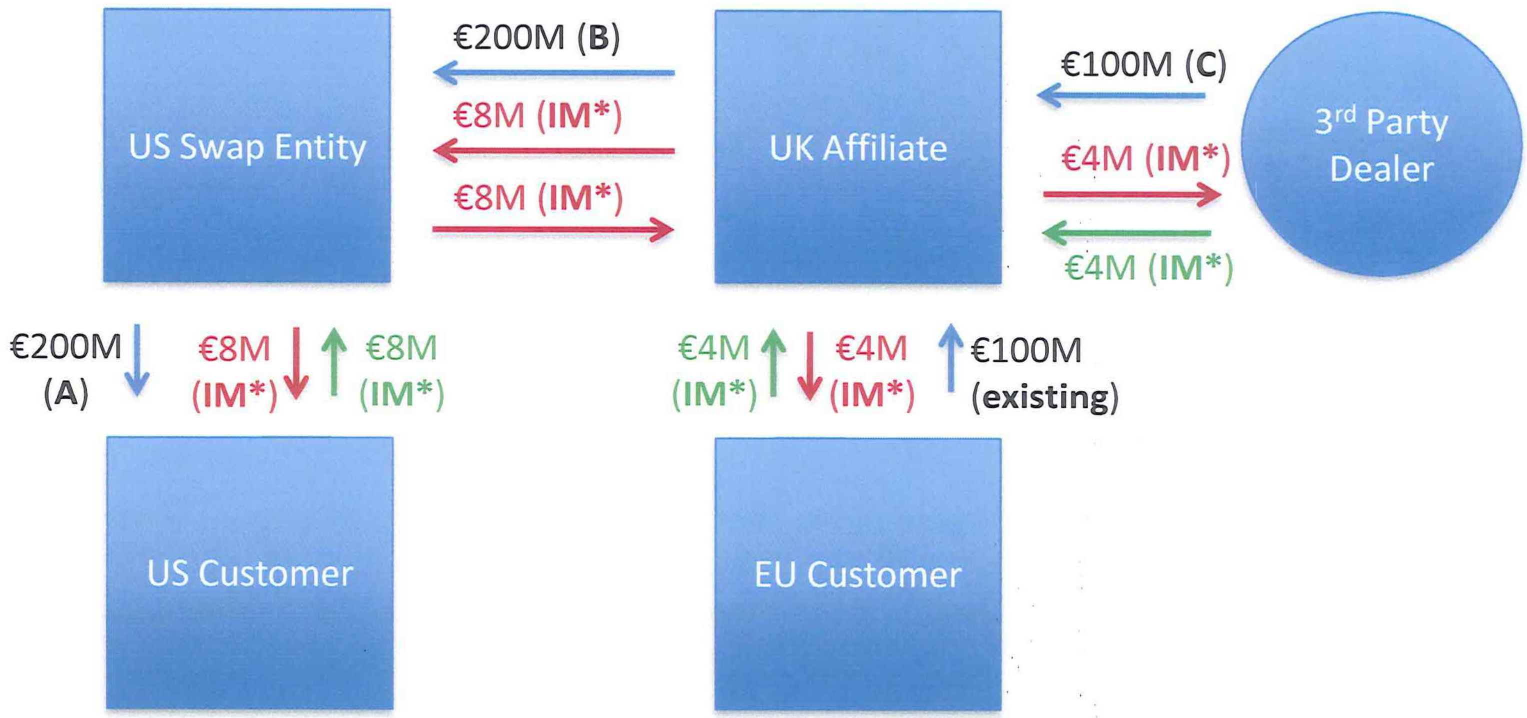
The Securities Industry and Financial Markets Association (SIFMA) prepared this material for discussion purposes only.

Scenario 1: Impact of Proposal's Requirement regarding Posting of IM between Affiliates

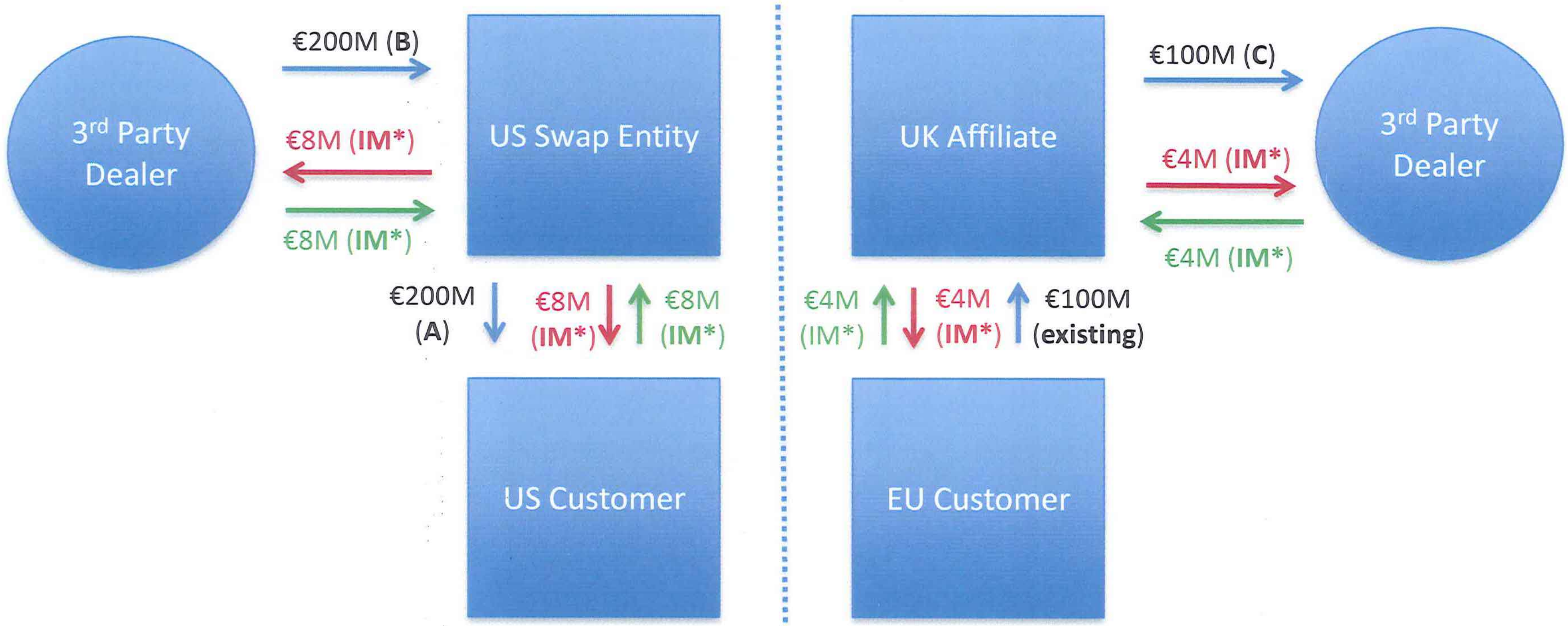
US Swap Entity sells €200M notional CDS on EU company to US customer (Transaction "A"). US Swap Entity hedges CDS by buying €200M notional CDS on the same EU company from UK affiliate (Transaction "B") that is already long €100M notional in CDS on that company due to a trade with an EU customer. UK affiliate hedges by buying additional €100M notional CDS on the company from a 3rd party dealer (Transaction "C"). Assuming IM requirements for transactions = 4% of notional, this results in the posting of **€32M in segregated IM by the US Swap Entity and its UK Affiliate, and €400M notional in group-wide credit exposure to 3rd parties.**



*Held at 3rd Party Custodian/No Rehypothecation

Scenario 2: Moving Away from Inter-Affiliate Transactions as Risk Management Tool

US Swap Entity sells €200M notional CDS on EU company to US customer (Transaction "A"). US Swap Entity hedges by buying €200M notional CDS on the same EU company from a 3rd party dealer (Transaction "B"). UK affiliate is already long €100M notional CDS on that company due to a trade with an EU customer, and to hedge the UK affiliate sells €100M notional CDS on that company to a 3rd party dealer (Transaction "C"). Assuming IM requirements for transactions = 4% of notional, this results in **the posting of €24M in segregated IM by the US Swap Entity and its UK Affiliate, and €600M notional in group-wide credit exposure to 3rd parties.**



*Held at 3rd Party Custodian/No Rehypothecation

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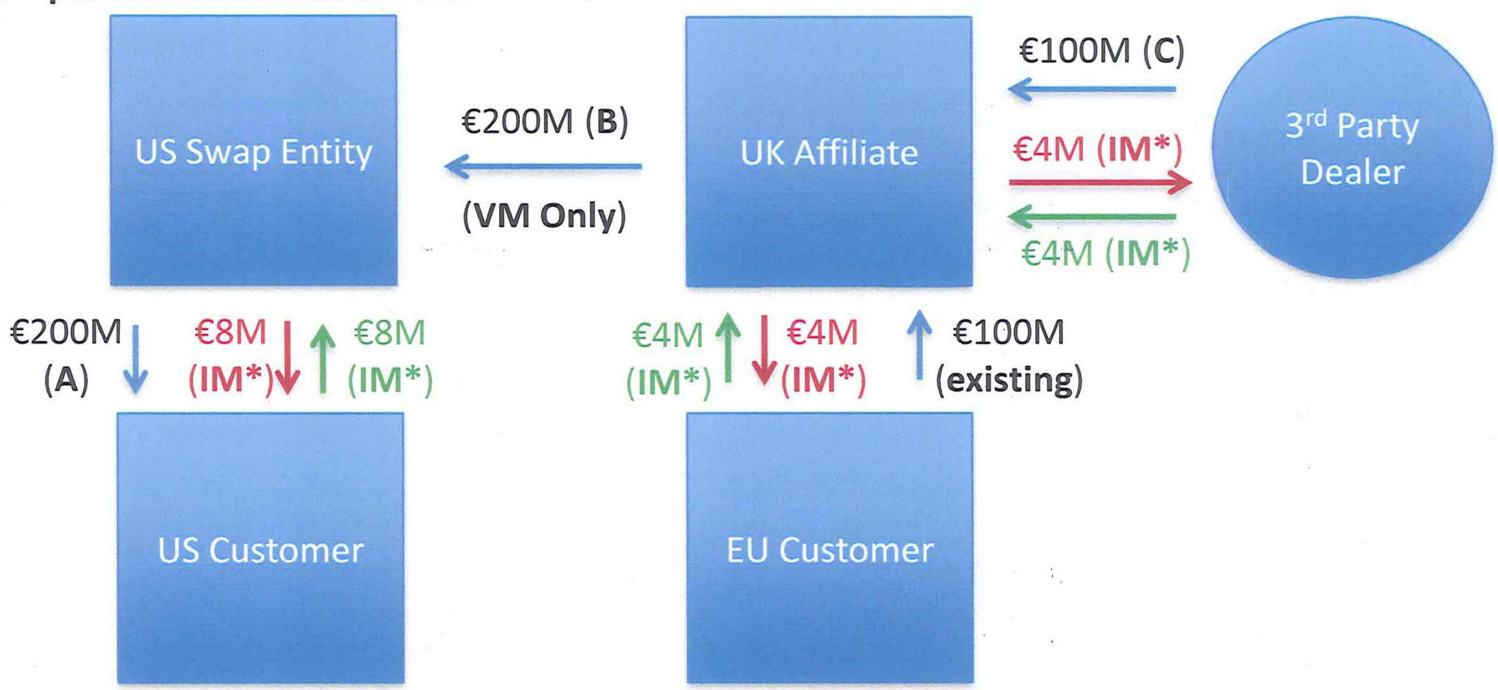
Scenario 3: No Posting of IM to Affiliates (SIFMA Recommendation)

US Swap Entity sells €200M notional CDS on EU company to US customer (Transaction "A"). US Swap Entity hedges by buying €200M notional CDS on the same EU company from UK affiliate (Transaction "B") that is already long €100M notional in CDS on that company due to a trade with an EU customer. UK affiliate hedges by buying additional €100M notional CDS on the company from a 3rd party dealer (Transaction "C"). Assuming IM requirements for transactions = 4% of notional, and that IM does not need to be exchanged between affiliates (subject to certain conditions**), this results in **the posting of €16M in segregated IM by the US Swap Entity and its UK Affiliate, while notional group-wide credit exposure to 3rd parties remains at €400M**.



*Held at 3rd Party Custodian/No Rehypothecation

**(1) swaps subject to group-wide, consolidated risk management program; (2) parties to swaps comply with VM requirements; and (3) Covered Swap Entity's group is subject to consolidated capital requirements consistent with the Basel Accord.