

## Eligible Deposit Accounts and Investment Instruments

### 1. Eligible Deposit Accounts

Funds collected by a servicer from debtors are remitted to a deposit account in the name of an SPC, and then are distributed as principal and interest payments to investors and other necessary expenses, after being held in the account for a short time of period. As the collected money temporarily held in the account is subject to the credit risk of the bank at which the account was opened, JCR has established criteria for an eligible deposit account<sup>1</sup>, which are in principle linked to bank ratings as shown below, in rating securitization products.

#### ■ Criteria for Eligible Deposit Account by Rating on Securitization Product

[Long-term Securitization Products (over 1 year)]

| Rating on Securitization Product      |                            | “AAA” to “A-“  | “BBB+” to “BBB-“ |
|---------------------------------------|----------------------------|----------------|------------------|
| Eligible Deposit Account <sup>2</sup> | (Short-term Issuer Rating) | “J-1” and Over | “J-2” and Over   |
|                                       | (Long-term Issuer Rating)  | “A-“ and Over  | “BBB-“ and Over  |

[Short-term Securitization Products (within 1 year)]

| Rating on Securitization Product |                            | “J-1+” to “J-1“ | “J-2“           |
|----------------------------------|----------------------------|-----------------|-----------------|
| Eligible Deposit Account         | (Short-term Issuer Rating) | “J-1” and Over  | “J-2” and Over  |
|                                  | (Long-term Issuer Rating)  | “A-“ and Over   | “BBB-“ and Over |

(Note) Generally, it is required that if the rating on the bank, at which the account was opened, falls to a lower level during the securitization period, the collected money is transferred to a new bank account that meets the criteria for an eligible deposit account, within a certain period of time<sup>3</sup> from the day on which the downgrading is made public.

### 2. Eligible Investment Instruments

The period of the funds remaining at an SPC may be relatively long, depending on securitization products, as in the case of cash reserve put aside for a long period of time at the SPC. In such a case, such funds are often invested in financial instruments for efficient use of the funds. JCR has also established criteria for such investment instruments as set out below.

<sup>1</sup> JCR may approve deposit accounts at banks not formally rated by JCR as eligible.

<sup>2</sup> In cases where there is no Short-term Issuer Rating given to the bank at which the account was opened, JCR uses Long-term Issuer Rating.

<sup>3</sup> In many cases, this period usually is within 10 business days or within a month (JCR requests within a month in principle).

■ Eligible Investment Instruments

|                     |   |
|---------------------|---|
| Investment Products | Government bonds, Government-guaranteed bonds, CP, Deposits, Bank accounts of trust banks (Refer to the Criteria below), Unsecured call, Government bond Repo <sup>4</sup> , CP Repo (Refer to the Criteria below).   |
| Period              | In principle, investments which mature or can be cancelled before maturity on or before the day 4 business days before the calculation date, or which can be withdrawn at any time (such investments that mature on or before the day 2 business days before the calculation date can be accepted exceptionally, depending on capability of the financial institutions in cash management). |
| Currency            | Currencies used for principal and interest payments of securitization products.   |
| Other               | Investments that do not fall below par (Investments with a risk of incurring loss from redemption such as bonds issued over par are also disapproved).  |

■ Criteria for Eligible Investment Instruments by Rating on Securitization Product

[Long-term Securitization Products (over 1 year)]

| Rating on Securitization Product             |                            | “AAA” to “A-“  | “BBB+” to “BBB-“ |
|--|----------------------------|----------------|------------------|
| Eligible Investment Instruments <sup>5</sup> | (Short-term Issuer Rating) | “J-1” and Over | “J-2” and Over   |
|  | (Long-term Issuer Rating)  | “A-“ and Over  | “BBB-“ and Over  |

[Short-term Securitization Products (within 1 year)]

| Rating on Securitization Product |                            | “J-1+” to “J-1“ | “J-2“           |
|----------------------------------|----------------------------|-----------------|-----------------|
| Eligible Investment Instruments  | (Short-term Issuer Rating) | “J-1” and Over  | “J-2” and Over  |
|                                  | (Long-term Issuer Rating)  | “A-“ and Over   | “BBB-“ and Over |

(Note) In principle, it is required that if the rating on the eligible investment instruments falls to a lower level during the securitization period, the investments are replaced with other eligible investment instruments within a month after the announcement of the downgrading or rating withdrawal.

<sup>4</sup> The repo transactions are limited to such transactions in which resale price (the with-coupon price in which unit sale price includes the accrued interest) is not below the original purchase price (the with-coupon price in which unit sale price includes the accrued interest). In the case of purchase under an agreement to resell, the counterparty shall meet JCR’s criteria for eligible investment instruments.

<sup>5</sup> In cases where there is no Short-term Issuer Rating given to the investment instrument, JCR uses Long-term Issuer Rating.



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