IMPORTANT NOTICE

DTCC Deriv/SERV LLC

DTCC The Depository Trust & Clearing Corporation

#: 685

Date: October 21, 2008

To: Distribution

From: Deriv/SERV Product Management

Subject: DTCC Deriv/SERV Credit Release 3.1 – Tranche Calculations, Factor Updates, and TIW Enhancements

On Thursday evening, October 23, 2008, DTCC Deriv/SERV LLC will implement Release 3.1 2008 of the Trade Information Warehouse (TIW). Key components of this release include the following:

1. **Tranche Payment Calculations:**
This release will introduce calculation of coupon and credit event payments for tranched index trades. Eligible tranched index trades in Certain status in the Warehouse will be converted to Gold Calc and the Warehouse will begin calculating coupons for these tranched index trades. This conversion will occur on the evening of 23Oct creating the 22Dec coupon payments. Note: the following tranched index trades are ineligible for conversion:
    a. TABX (tranches on ABX) are ineligible.
    b. Trades manually set to Gold NoCalc are ineligible. However, should these trades thereafter be set to Gold Calc they will then be eligible and coupons created.
    c. Trades where it is not possible to determine with precision the underlying tranched index will be ineligible (primarily bad reference entity names or bad annex dates.)
    d. Trades that are Uncertain will not be converted. However, should these trades thereafter become Certain the tranched index will then be eligible and coupons will be created.
    e. Most CDX series 1 and series 2 trades are ineligible for conversion since they did not follow the current factor practice. CDX series thereafter are eligible for conversion.
    f. There is no standard terms for tranched indexes for iTraxx LevX therefore these trades are not eligible for conversion.

    The conversion assumes that all credit events have been realized prior to the conversion and therefore all tranched index coupons created will use 06Oct2008 as the relevant settled entity matrix (the '*RSEM*') date; the 06Oct2008 RSEM date will be used regardless of the confirmed settled entity date since this date has not normally been updated after confirmation. For essentially all trades this will be the appropriate choice; either or both firms can manually set any tranche trade to Gold NoCalc should you wish to override this conversion assumption.

    After the 23Oct conversion eligible <u>new</u> tranched index trades will use the following rules for determining the appropriate RSEM date, total recovery, and total loss:

Trades confirmed **without** RSEM Date where the index never had an event		Total Loss & Total Recovery =0.0%
Trades confirmed with the "**Latest**" RSEM Date	Event [1]	Apply latest total loss & total recovery for that index series from the matrix
	No Event [2]	Total Loss & Total Recovery =0.0%
Trades confirmed with **valid but not latest** RSEM Date		Apply latest total loss & total recovery for that index series from the matrix
Trades Confirmed with **Invalid** RSEM Date		GNC

Index tranche trades are systematically adhered to applicable credit events. For index tranche trades firms may choose to revoke from a credit event.

After the 23Oct conversion tranched index trades are eligible for credit event processing. Tranched indexes will be automatically adhered to each credit event when applicable. For example:

- On the evening of 24Oct2008 and every night thereafter until the 05Nov2008 event processing end date applicable index tranche trades will be automatically adhered to the Washington Mutual credit event
- Either or both parties to the trade may revoke a tranched index trade from the Washington Mutual event prior to the expected 05Nov2008 event processing end date.
- As appropriate the 22Dec coupon[3] for these bilaterally adhered index tranche trades will be revised to reflect the Washington Mutual total recovery and total loss
- As appropriate a credit event cash settlement payment for Equity index tranche trade bilaterally adhered to the Washington Mutual event will be created payable on the cash settlement date.

2. Factor Updates

Untranched Index trades that were either unilaterally or bilaterally adhered to a credit event, but which were not included in credit event processing because they did not meet eligibility criteria, will be updated with the new factor for the index. Future dated cashflows will be adjusted to reflect the new factor. Untranched index factor updates will occur on the cash settlement date of a credit event and are limited to factor updates for indexes affected by that credit event.

3. BAU (Business as Usual) enhancements:

TIW BAU enhancements will be introduced. Following is a listing of the key enhancements:

[1] Where the index has been through a credit event.
[2] Where the index has not experienced a credit event.
[3] 22Dec is the typical roll date for tranches, other dates could be confirmed and will be used as appropriate.

- For the Additional Terms field, any submission with “n” or “N” as the only character in the field will be processed as if the field were blank.
- The original Trade and Effective dates will be included on the GUI display for Amendments on Assignments.
- No impact amendments, i.e., an amendment that does not change the confirmed TIW record, will be rejected.

Please be advised that these enhancements will be migrated into production on the evening of Thursday, 23rd October, 2008, starting at 6:00 PM EDT (11:00 PM GMT); the release process should take approximately five hours. During this time (6:00 PM – 11:00 PM EDT, and 11:00 PM to 04:00 AM GMT), the Web service will not be available. Incoming MQ messages during this period will be accepted and queued for processing after completion of the release process.

The new functionality and enhancements outlined in this Important Notice have been communicated via various Working Groups. By using the affected services, the User agrees to waive any applicable notice requirements relating to the enhancements.

Any questions or comments regarding this release or DTCC Deriv/SERV in general should be directed to your Client Account representative.