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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.

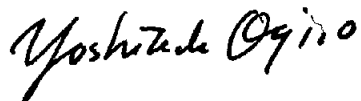
5. Qualifications

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,



-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).

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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 Tendo 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).