SBC POLICY ON APPROVAL OF PROPOSED USE OF SWAPS, OR OTHER FORMS OF DERIVATIVE PRODUCTS, HEDGES, ETC.
Adopted July 20, 2006

- Applicable to any matter submitted for approval that includes the use of swaps, or other forms of derivative products, hedges, etc. or contemplates the future use of swaps, or other forms of derivative products, hedges, etc.

- Applicable also, under a conditional approval provision, to any matter submitted for approval that does not at that time include the use or contemplates the future use of swaps, or other forms of derivative products, hedges, etc., but for which, in fact, subsequently swaps, or other forms of derivative products, hedges, etc. are proposed to be used.

- Whether pursuant to the initial application of a future situation under the second bullet above, application would have to certify that the swaps, or other forms of derivative products, hedges, etc. proposed to be used conform in all respects to the SBC Interest Rate Swap Policy, have the agreements for or terms of the proposed swaps, or other forms of derivative products, hedges, etc. attached, and, if not in conformity with the SBC Interest Rate Swap Policy, a detailed explanation of the nonconformity and the reasons for approval of the proposed nonconforming swaps, etc. proposed to be used.

- Requires SBC approval of the swaps, or other forms of derivative products, hedges, etc. proposed to be used.

Definition for the purposes of this Policy:

- **Swaps –** "an arrangement whereby two parties (called counterparties) enter into an agreement to exchange periodic interest payments." The payments are based on a fixed principal amount called the "notional" amount because no principal is actually exchanged; rather, only interest is exchanged (typically on a net basis). In a standard interest rate swap, one party pays interest calculated on the notional amount at a variable or floating rate which fluctuates periodically (e.g. weekly or monthly) according to a predetermined, published index. The other party normally pays interest at a rate that is fixed for the term of the swap. The swap fixed rate is determined at a time of trade execution by either competitive bidding or negotiation with an interest rate swap dealer(s). The dealers (or "providers"), generally known as "counterparties", who make markets in swaps, are large commercial or investment banks or other financial institutions. Swaps contracts are traded "over the counter" (as opposed to an exchange) and the terms can be customized to incorporate a variety of features and maturities from three months to thirty years or longer. Swaps may include an exchange of a fixed rate and a floating rate, the exchange of two floating rates or the exchange of two fixed rates.
- **Derivative –** A contract whose value is based on the performance of an underlying financial asset, index, or other investment.
- **Hedge –** Strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of future gain or loss.