

GENERIC RISKS ASSOCIATED WITH INTEREST RATE DERIVATIVE TRANSACTIONS

Interest Rate Derivative Transactions (each an “IRD Transaction”), like other financial transactions, involve a variety of significant risks. The specific risks presented by a particular IRD Transaction are necessarily dependent upon the terms of the transaction and the Member’s circumstances. In general, however, all IRD Transactions involve some combination of market risk, credit risk, funding risk and operational risk.

Market risk is the risk that the value of a transaction will be adversely affected by fluctuations in the level or volatility of or correlation or relationship between one or more market prices, rates or indices or other market factors or by illiquidity in the market for the relevant transaction or in a related market.

Credit risk is the risk that a counterparty will fail to perform its obligations to Member when due.

Funding risk is the risk that, as a result of mismatches or delays in the timing of cash flows due from or to Member’s counterparties in IRD Transactions or related hedging, trading, collateral or other transactions, Member or Member’s counterparty will not have adequate cash available to fund current obligations.

Operational risk is the risk of loss arising from inadequacies in or failures of Member’s internal systems and controls for monitoring and quantifying the risks and contractual obligations associated with the IRD Transactions, for recording and valuing IRD Transactions, or for detecting human error, systems failure or management failure.

There may be other significant risks that you should consider based on the terms of a specific transaction. Highly customized IRD Derivative Transactions in particular may increase liquidity risk and introduce other significant risk factors of a complex character. Highly leveraged transactions may experience substantial gains or losses in value as a result of relatively small changes in the value or level of an underlying or related market factor.

Because the price and other terms on which you may enter into or terminate an IRD Transaction are individually negotiated, these may not represent the best price or terms available to Member from other sources.

In evaluating the risks and contractual obligations associated with a particular IRD Transaction, Member should also consider that an IRD Transaction may be modified or terminated only by mutual consent of the original parties and subject to agreement on individually negotiated terms. Accordingly, it may not be possible for Member to modify, terminate or offset its obligations or

its exposure to the risk associated with an IRD Transaction prior to its scheduled termination date.

Similarly, while market makers and dealers generally quote prices or terms for entering into or termination IRD Transactions and provide indicative or mid-market quotations with respect to outstanding IRD Transactions, they are generally not contractually obligated to do so. In addition, it may not be possible to obtain indicative or mid-market quotations for an IRD Transaction from a market maker or dealer that is not a counterparty to the transaction. Consequently, it may also be difficult for a Member to establish an independent value for an outstanding IRD Transaction. Member should not regard its counterparty's provision of a valuation or indicative price at its request as an offer to enter into or terminate the relevant transaction at that value or price, unless the value or price is identified by the counterparty as firm or binding.

This brief statement does not purport to disclose all of the risks and other material considerations associated with IRD Transaction. Member should not construe this generic disclosure statement as business, legal, tax or accounting advice or as modifying applicable law. Member should consult its own business, legal, tax and accounting advisers with respect to proposed IRD Transactions and it should refrain from entering into any IRD Transaction unless it has fully understood the terms and risks of the IRD Transaction, including the extent of its potential risk of loss.