

## 2016 Portugal Telecom International Finance B.V. Credit Derivatives Auction Settlement Terms

### Explanatory Statement

The DC Secretary has received a number of queries from market participants as to whether Relevant Transactions<sup>1</sup> with a Scheduled Termination Date of 20 June 2016 have been triggered by virtue of the DC Resolution of 1 July 2016 that a Bankruptcy Credit Event occurred with respect to Portugal Telecom International Finance B.V. on 20 June 2016 (the **Bankruptcy Credit Event DC Resolution**). Accordingly, the DC thought it would be helpful to publish an explanatory statement on this issue.

Market participants should note that the following analysis applies to market standard Relevant Transactions with a Scheduled Termination Date of 20 June 2016, specifying Portugal Telecom International Finance B.V. as the Reference Entity and for which the applicable "Transaction Type" is "Standard European Corporate" or "European Corporate" (each, a **Market Standard 20 June CDS**). The analysis and outcome may be different with respect to any Relevant Transaction that is not a Market Standard 20 June CDS.

**In summary, a Market Standard 20 June CDS will have been triggered by virtue of the Bankruptcy Credit Event DC Resolution and therefore will constitute an Auction Covered Transaction for the purposes of the 2016 Portugal Telecom International Finance B.V. Credit Derivatives Auction Settlement Terms published by ISDA on 13 July 2016 (the AST).**

A Market Standard 20 June CDS will be triggered<sup>2</sup>, and will constitute an Auction Covered Transaction<sup>3</sup>, if, *inter alia*, an Event Determination Date has occurred in respect thereof prior to the Auction Date (being 21 July 2016).

An Event Determination Date<sup>4</sup> with respect to Market Standard 20 June CDS has occurred because:

(a) ***a DC Credit Event Announcement has occurred***<sup>5</sup>:

- (i) pursuant to the Bankruptcy Credit Event DC Resolution, the Bankruptcy Credit Event occurred on 20 June 2016;
- (ii) the Bankruptcy Credit Event therefore occurred on or prior to the Extension Date of the Market Standard 20 June CDS – the Extension Date in this case means the Scheduled Termination Date of 20 June 2016<sup>6</sup>; and
- (iii) accordingly, the public announcement by the DC Secretary of the Bankruptcy Credit Event DC Resolution constituted a DC Credit Event Announcement<sup>7</sup>; and

(b) ***the Credit Event Resolution Request Date occurred on or prior to the last day of the Notice Delivery Period***:

- (i) the Credit Event Resolution Request Date with respect to this DC Question is 21 June 2016 (see [DC Resolution of 1 July 2016](#))<sup>8</sup>;

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<sup>1</sup> As per Section 1.1(a) of the DC Rules, "Relevant Transactions" are defined to mean Credit Derivative Transactions that have, or are deemed to have, incorporated the 2014 Definitions or the Updated 2003 Definitions.

<sup>2</sup> See Section 12.1 of the Updated 2003 Definitions / Section 6.1 of the 2014 Definitions.

<sup>3</sup> See definitions of "Auction Covered Transaction" and "Covered Non-Swaption Transaction" in the AST.

<sup>4</sup> See Section 1.8(a)(ii)(A)(I) of the Updated 2003 Definitions / Section 1.16(a)(ii)(A) of the 2014 Definitions.

<sup>5</sup> See Section 1.30 of the Updated 2003 Definitions / Section 1.28 of the 2014 Definitions.

<sup>6</sup> See Section 1.25 of the Updated 2003 Definitions / Section 1.40 of the 2014 Definitions.

<sup>7</sup> NB Under the Updated 2003 Definitions only, an additional requirement under Section 1.30 to constitute a DC Credit Event Announcement is that the Credit Event Resolution Request Date must have occurred on or prior to the last day of the Notice Delivery Period – see item (b) below for satisfaction of this requirement.

<sup>8</sup> See Section 1.24 of the Updated 2003 Definitions / Section 1.30 of the 2014 Definitions.

- (ii) the Notice Delivery Period for the Market Standard 20 June CDS runs up to and including the fourteenth calendar day following the Extension Date<sup>9</sup> – as noted above, the Extension Date in this case means the Scheduled Termination Date of 20 June 2016; and
- (iii) accordingly, the Credit Event Resolution Request Date occurred on or prior to the last day of the Notice Delivery Period for the Market Standard 20 June CDS.

Pursuant to Section 1.8(a)(ii)(A)(I) of the Updated 2003 Definitions / Section 1.16(a)(ii)(A) of the 2014 Definitions, the Event Determination Date constituted by virtue of the foregoing occurred on the Credit Event Resolution Request Date, being 21 June 2016. Accordingly, the requirements set forth above for a Market Standard 20 June CDS to be triggered and constitute an Auction Covered Transaction have been satisfied.

Please note, however, that any such Auction Covered Transaction will not be subject to the Fixed Rate Accrual Amendments set out at Schedule 2 of the Auction Settlement Terms on the basis that the final Fixed Amount under such transaction should have been paid by Buyer on or about 20 June 2016.

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<sup>9</sup> See Section 1.9 of the Updated 2003 Definitions / Section 1.23 of the 2014 Definitions.