

Handling Procedure for Operation of Substitute Securities

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Article 1 (Purpose)

1. This procedure shall specify necessary matters on types of securities that may be substituted for Guarantee Funds and Member Security Deposits (hereinafter referred to as “Substitute Securities”), substituting prices, and revision or abolition pursuant to the provisions of Article 136, Paragraph 2 and Article 138, Paragraph 2 of the Market Rules and Article 15 of the Detailed Rules for Membership Enforcement.

Article 2 (Types and Substituting Prices of Substitute Securities)

1. Types of securities that may be deposited as substitutes for Guarantee Funds and Member Security Deposits and substituting prices shall be as specified in the appended table.

Article 3 (Revision or Abolition)

1. Revision or abolition of this procedure shall be approved by the Representative Director, President. However, this shall be approved by the executive officer in charge if the revisions are minor.

Supplementary Provisions

Article 1

These revisions shall take effect on July 27, 2020.

Article 2

Notwithstanding the provisions of Article 1, in the event that there is operational trouble of the Collateral Management System or other unavoidable reasons recognized by the Exchange, the Exchange will provide the effective date separately.

Appendix

Table for Types of Substitute Securities and Substituting Prices Thereof

1. The substituting prices of the securities shall be obtained by multiplying the market price of the securities as of two days before the day when said securities are deposited by the ratio set forth by the Exchange (one business day earlier if the day falls on a non-business day). However, in consideration of the purpose of Guarantee Funds and Member Security Deposits, the Exchange may, when deemed particularly necessary, reduce the ratio to be multiplied by the market price to the extent necessary when calculating substituting prices of substitute securities for a single Member by resolution of the Board of Directors.
2. Types of securities, market prices, and the ratios specified by the Exchange pursuant to the preceding paragraph shall be as follows:

Types of Securities		Market Price	Ratio to be Multiplied by the Market Price
National government bond certificates (in the case of inflation-indexed government bonds (meaning inflation-indexed bonds prescribed in Article 1 of the Ministerial Order Concerning Treatment of Inflation-Indexed Bonds (Ministry of Finance Order No. 7 of 2004); hereinafter the same), limited to those eligible for clearing by Japan Securities Clearing Corporation)	Those whose reference statistical prices (yields) are disseminated by Japan Securities Dealers Association (JSDA)	Average value included in said reference statistical price (yield) (in the case of inflation-indexed government bonds, the value obtained by multiplying said average value by an indexation coefficient published by the Ministry of Finance)	95/100
	Those that are listed on a financial instruments exchange in Japan and whose reference statistical prices (yields) are not disseminated	The final price (Note 2) at the financial instruments exchange (Note 1)	
Government-guaranteed bond certificates (Note 3)	Those whose reference statistical prices (yields) are disseminated by JSDA	Average value included in said reference statistical price (yield)	90/100
	Those that are listed on a financial instruments exchange in Japan and whose reference statistical prices (yields) are not disseminated	The final price (Note 2) at the financial instruments exchange (Note 1)	
Local government bond certificates (Note 3)	Those whose reference statistical prices (yields) are disseminated by JSDA	Average value included in said reference statistical price (yield)	85/100
	Those that are listed on a financial instruments exchange in Japan and whose	The final price (Note 2) at the financial instruments exchange (Note 1)	

(Handling Procedure for Operation of Substitute Securities as of July 27, 2020)

Types of Securities		Market Price	Ratio to be Multiplied by the Market Price	
	reference statistical prices (yields) are not disseminated			
Special bond certificates (excluding government-guaranteed bond certificates) (Note 4)	Those whose reference statistical prices (yields) are disseminated by JSDA	Average value included in said reference statistical price (yield)	85/100	
Corporate bonds (excluding corporate bonds with subscription warrants and exchangeable corporate bonds) (Notes 3 and 4)	Those that are listed on a financial instruments exchange in Japan and whose reference statistical prices (yields) are not disseminated	The final price (Note 2) at the financial instruments exchange (Note 1)		
Beneficiary certificates of public and corporate bond investment trusts	Those whose market price as of the previous day is disseminated by the Investment Trusts Association, Japan	Said market price	85/100	
Convertible bonds (Notes 3 and 5)	Those that are listed on a financial instruments exchange in Japan	The final price (Note 2) at the financial instruments exchange (Note 1)	80/100	
Exchangeable corporate bonds (Notes 3 and 6)				
Stocks	Those that are listed on a financial instruments exchange in Japan	The final price (Note 2) at the financial instruments exchange (Note 1)	70/100	
Beneficiary certificates of foreign investment trusts				
Foreign investment securities				
Beneficiary certificates of beneficiary certificate-issuing trusts				
Beneficiary certificates of foreign beneficiary certificate-issuing trusts (Note 7)	Those that are listed on a financial instruments exchange in Japan	The final price (Note 2) at the financial instruments exchange (Note 1)		
Beneficiary certificates of investment trusts (excluding beneficiary certificates of public and corporate bond investment trusts)				
Investment Securities	Those whose market price as of the previous day is disseminated by the Investment Trusts Association, Japan	Said market price		

(Notes)

1. In cases where securities are listed on two or more financial instruments exchanges, the financial instruments exchange means the exchange which is selected in accordance with the order specified by the Exchange.
2. In cases where a quote is displayed at said financial instruments exchange, the final price shall be said final quote price.

3. Limited to securities for which a principal underwriting agreement has been entered into by a financial instruments business operator (limited to those registered for business specified in Article 28, Paragraph 1, Item 1 of the Financial Instruments and Exchange Act) at the time of issuance.
 4. Corporate bonds (excluding corporate bonds with subscription warrants and exchangeable corporate bonds) and convertible bonds shall be limited to those issued by a company whose stocks are listed on a financial instruments exchange in Japan.
 5. Convertible bonds mean corporate bonds with subscription warrants where the contribution to be made on exercising the subscription warrant is a corporate bond pertaining to said corporate bond with subscription warrants.
 6. Exchangeable corporate bonds mean corporate bonds (including corporate bonds issued by foreign corporations) that are redeemed with stocks issued by a specified company other than the issuer of said bond at the request of the bond holder.
 7. Beneficiary certificates of foreign beneficiary certificate-issuing trusts mean securities or certificates issued by foreign corporations that have the characteristics of beneficiary certificates of beneficiary certificate-issuing trusts.
3. The order specified by the Exchange as prescribed in the provisions of the preceding paragraph shall be as follows:
- The first is the financial instruments exchange which has the largest trading volume (limited to the volume pertaining to regular transactions (meaning those set forth by each financial instruments exchange) carried out during trading sessions) of said issue among financial instruments exchanges from July to December of the previous year if the day two days before the deposit date belongs to a period between February and July, or from January to June if said date belongs to a period between August and January of the following year. The order after the first shall be decided according to the order of the codes of exchanges/industry groups, etc. (meaning those specified by the Securities Identification Code Committee).
4. Fractions of substituting prices shall be adjusted as follows:
- (1) For stocks, beneficiary certificates of investment trusts, beneficiary certificates of foreign investment trusts, investment securities, foreign investment securities, beneficiary certificates of beneficiary certificate issuing trusts, and beneficiary certificates of foreign beneficiary certificate issuing trusts, fractions less than JPY 1 (one) shall be rounded down; and
 - (2) For securities other than those prescribed in the preceding item, fractions less than JPY 1/100 (one hundredth) shall be rounded down.
5. Where Members deposit government bonds as prescribed in Paragraph 2 with the Exchange, they shall make said deposits by transferring them to the account opened in the name of the Exchange

with DSB Co., Ltd.

6. Where Members deposit securities referred to in each of the following items with the Exchange, JSCC shall receive said securities on behalf of the Exchange. The Members shall make said deposits by transferring them to the account opened in the name of JSCC with Japan Securities Depository Center, Inc. (hereinafter referred to as "JASDEC").
 - (1) Stocks, beneficiary certificates of investment trusts, foreign investment securities, beneficiary certificates of beneficiary certificate-issuing trusts, beneficiary certificates of foreign beneficiary certificate-issuing trusts, bonds (excluding government bonds and corporate bonds with subscription warrants) and convertible bonds
 - (2) Investment securities that are listed on a financial instruments exchange in Japan
7. The Exchange shall entrust reports to JASDEC pertaining to deposited securities referred to in each of the following items to the Member which deposits such securities, and the entrusted Member shall make said reports to JASDEC. In this case, the entrusted Member may consign such reporting to other parties.
 - (1) Reporting on the delegation status of the special shareholders management business pertaining to stocks issued by domestic corporations
 - (2) Reporting on the delegation status of the special beneficiaries management business pertaining to beneficiary certificates of investment trusts
 - (3) Reporting on the delegation status of the special investors management business pertaining to investment securities
 - (4) Reporting on the delegation status of the special beneficiaries management business pertaining to beneficiary certificates of beneficiary certificate-issuing trusts
8. Notwithstanding Paragraph 2, where a stock listed on a Japanese financial instruments exchange (including beneficiary certificates of investment trusts, beneficiary certificates of foreign investment trusts, investment securities, foreign investment securities, beneficiary certificates of beneficiary certificate-issuing trusts, and beneficiary certificates of foreign beneficiary certificate-issuing trusts; the same shall apply in this and the next paragraph) falls under the delisting criteria set forth by all the financial instruments exchanges in Japan where said stock is listed (excluding cases specified in each of the following items), said stock and corporate bonds issued by the issuer of said stock (excluding beneficiary certificates of investment trusts, beneficiary certificates of foreign investment trusts, beneficiary receipts of beneficiary certificate-issuing trusts, and beneficiary certificates of foreign beneficiary certificate-issuing trusts) shall be excluded from Substitute Securities from the day (to be moved down if the day falls on a non-business day; same shall apply hereinafter) following the day when said stock falls under the delisting criteria.

- (1) When the issuer of said stock becomes a wholly owned subsidiary of a company which is listed on a financial instruments exchange in Japan through share exchange or share transfer
 - (2) When the issuer of said stock is merged into a company which is listed on a financial instruments exchange in Japan
 - (3) When said stock is delisted and stocks to be issued in exchange for said delisted stock are expected to be listed immediately on a financial instruments exchange in Japan
9. Stocks deposited with the Exchange by a Member as a substitute for Guarantee Funds or Member Security Deposit shall be limited to those registered under the name of said Member (or those in the proprietary account of said Member in cases where stocks which are eligible for the book entry transfer business of JASDEC are provided by book-entry transfer of JASDEC).
10. The provisions of Paragraph 8 shall apply mutatis mutandis to a bond if the obligation of the bond issuer has been accelerated and become immediately due and payable.
11. Notwithstanding the provisions of Article 136, Paragraph 2 of the Market Rules, investment securities issued by the Bank of Japan and beneficiary certificates prescribed in Article 2, Paragraph 2 of the Loan Trust Act shall be excluded from the securities that may be deposited as substitutes.