

Outlines concerning Revision of Clearing Services for Listed Derivatives, etc.

March 31, 2017
Japan Securities Clearing Corporation

Contents

| | | | |
|---|--|--|---|
| <p>1. Revision of Account Management Structure at CCP 1</p> <p> (1) Management Method of Client's Position, etc. 1</p> <p> ① Account Types for Management of Client's Position, etc. 1</p> <p> ② Omnibus Account 2</p> <p> ③ ISA 4</p> <p> ④ Handling of Position, etc. of Affiliate Proprietary 5</p> <p> (2) Method of Management of Proprietary Position, etc. 6</p> <p> ① Account Types for Management of Proprietary Position, etc. 6</p> <p> ② Management Method of Proprietary Position, etc. Using House Account 6</p> <p> (3) Introduction of Trade Allocation (Allocation Change of Market Transactions of Derivatives within each Account under a Clearing Member) Report 7</p> <p>2. Revision of Position Settlement Process 9</p> <p> (1) Revision of Position Settlement Process (Introduction of Close-out Quantity Reporting Scheme) 9</p> <p> (2) Introduction of Automatic Close-out Reporting Account 9</p> <p>3. Position Transfer 10</p> <p> (1) Position Transfer Notification Cut-off Time 10</p> <p> (2) Position Transfer Completion Timing 10</p> <p> (3) Handling of Position Transfer Price of Futures Contracts 10</p> <p>4. Variation Margin and Options Premium Settlement Method 10</p> <p> (1) Net Settlement and Change of Settlement Netting Group 11</p> <p> (2) VM/OP Premium Settlement Timing 11</p> | <p>..... 1</p> <p>..... 1</p> <p>..... 1</p> <p>..... 2</p> <p>..... 4</p> <p>..... 5</p> <p>..... 6</p> <p>..... 6</p> <p>..... 6</p> <p>..... 7</p> <p>..... 9</p> <p>..... 9</p> <p>..... 9</p> <p>..... 10</p> <p>..... 10</p> <p>..... 10</p> <p>..... 10</p> <p>..... 10</p> <p>..... 11</p> <p>..... 11</p> | <p> ① Payment Cut-off Time 11</p> <p> ② Receiving Timing 11</p> <p> (3) Addition of VM/ OP Premium Settlement Method 12</p> <p>5. Revision of Margin Framework 12</p> <p> (1) Margin 12</p> <p> ① Margin Requirement Calculation Method 12</p> <p> ② Change Calculation Level for and Account subject to Risk-based Margin Requirement Add-on Charge 13</p> <p> ③ Margin Deposit Cut-off Time 13</p> <p> (2) Introduction of Intraday Margin 13</p> <p> ① Purpose 14</p> <p> ② Intraday Margin Requirement Calculation Method 14</p> <p> ③ Application of Intraday Margin 16</p> <p> ④ Intraday Margin Deposit Deadline 16</p> <p> (3) Emergency Margin 16</p> <p> ① Emergency Margin Requirement Calculation Method 17</p> <p> ② Emergency Margin Deposit Deadline 17</p> <p> (4) Introduction of Monitoring Margin Framework 17</p> <p> ① Purpose 17</p> <p> ② Monitoring Margin Trigger Threshold 18</p> <p> ③ Margin Additional Deposit when Receiving Monitoring Margin Trigger Notice 19</p> <p> ④ Emergency Suspension during Additional Deposit Exemption Hours 20</p> | <p>..... 11</p> <p>..... 11</p> <p>..... 12</p> <p>..... 12</p> <p>..... 12</p> <p>..... 12</p> <p>..... 13</p> <p>..... 13</p> <p>..... 13</p> <p>..... 14</p> <p>..... 14</p> <p>..... 16</p> <p>..... 16</p> <p>..... 16</p> <p>..... 17</p> <p>..... 17</p> <p>..... 17</p> <p>..... 18</p> <p>..... 19</p> <p>..... 20</p> |
|---|--|--|---|

* DISCLAIMER: This is the reference translation of the original Japanese document. Japan Securities Clearing Corporation shall accept no responsibility or liability for damage or loss caused by any error, inaccuracy, or misunderstanding with regard to this translation. This document may not be reproduced or redistributed in whole or in part without the permission of Japan Securities Clearing Corporation.

| | | | |
|---|---------|---------|--|
| 6. Revision of Collateral Management Framework |21 | Annex 1 | Revision of Account Management Structure |
| (1) Revision of Scope of Eligible Collateral |21 | Annex 2 | Cut-off times |
| ① Introduction of Foreign Currency Cash in lieu of Yen Cash |21 | Annex 3 | Definition of Affiliate |
| ② Expansion of Scope of Eligible Foreign Bond Collateral |22 | Annex 4 | Allocation Methods |
| ③ Exclusion of some Securities from scope of Eligible Collateral |22 | Annex 5 | Method of Close-out Quantity Report |
| (2) Quantitative Limitation on Collateral |23 | Annex 6 | Change Variation Margin/Option Premium Settlement Method |
| ① Quantitative Limitation, etc. related to Stock, etc. |23 | Annex 7 | Intraday Margin/Emergency Margin Calculation Method |
| ② Quantitative Limitation related to Bonds |24 | Annex 8 | Introduction of Monitoring Margin Framework |
| (3) Quantitative Limitation, etc. on Clients holding Large Position |24 | | |
| 7. Introduction of Tiered Client Position Reporting |25 | | |
| (1) Purpose |25 | | |
| (2) Tiered Client Reporting |25 | | |
| (3) Measures Taken when Tiered Client Report is not Submitted by Deadline |26 | | |
| 8. Other |26 | | |
| 9. Implementation Date |26 | | |

* DISCLAIMER: This is the reference translation of the original Japanese document. Japan Securities Clearing Corporation shall accept no responsibility or liability for damage or loss caused by any error, inaccuracy, or misunderstanding with regard to this translation. This document may not be reproduced or redistributed in whole or in part without the permission of Japan Securities Clearing Corporation.

Outlines concerning Revision of Clearing Services for Listed Derivatives, etc.

I. Purpose

In order to further promote our competitiveness as CCP through higher quality of clearing service, JSCC will conduct system replacements of the listed derivatives clearing/settlement functions, etc (Next Clearing System) .

JSCC implements various revisions to its Listed Derivatives Clearing Services to further enhance its quality as central counterparty (CCP) and improve Participants' convenience through introduction of various practices broadly adopted by major overseas CCPs and implementation of sophisticated risk management that is more frequent and granular.

II. Outlines

| Item | Description | Remarks |
|--|--|--|
| 1. Revision of Account Management Structure at CCP (1) Management Method of Client's Position, etc. ① Account Types for Management of Client's Position, etc. | <ul style="list-style-type: none"> • Clearing Members will manage the client's Market Transaction of Derivatives executed at Osaka Exchange, position and collateral related to such transactions (hereinafter referred to as "Position, etc.") through either of the below account types: • Omnibus Account | <ul style="list-style-type: none"> • See Annex 1 for available types of accounts and their features. • A Clearing Member may request JSCC to open multiple |

| Item | Description | Remarks |
|--|--|---|
| <p>② Omnibus Account</p> <p>a. Close-out Quantity Report</p> <p>b. Position Report</p> | <ul style="list-style-type: none"> • Individual Segregated Account (ISA) • Management method of client's Position, etc. using Omnibus Account shall be as follows: <ul style="list-style-type: none"> • The Clearing Member managing Position, etc. using Omnibus Account for clients shall report the close out quantity described in 2. (1) below daily by each of the Omnibus Accounts it opened to fix the position as at the close of a trading day. • Submission cut-off time of the close-out quantity report shall be 7:00 p.m. • The Clearing Member managing Position, etc. using Omnibus Account for clients shall report breakdown information of position by reporting unit set forth in c. below by each issue to JSCC daily in respect of each of the Omnibus Accounts it opened (such reporting of breakdown information is hereinafter referred to as "Position Report"). • Position Report submission cut-off time shall be 7:00 p.m. | <p>Omnibus Accounts and ISAs for clients. However, the total number of these accounts shall be up to 20 in principle for the time being.</p> <ul style="list-style-type: none"> • See Annex 2 for various notification cutoff times. Same for other notification cutoff times. • Agency Clearing Members will submit the Position Reports for Non-Clearing Members' Omnibus Accounts; provided that similar to the treatment under existing offsetting purchase/sale notification scheme, Non-Clearing Members are allowed to submit the Position Report for their Omnibus Accounts on behalf of Agency Clearing Members. • Position related to JGB Futures Contracts resulting from |

| Item | Description | Remarks |
|---|---|--|
| c. Position Report Breakdown Unit (Granularity) | <ul style="list-style-type: none"> Client unit for Position Report purpose (i.e. client unit at which position breakdown by issue within the Omnibus Account for clients shall be submitted) shall be the unit of client who executes the AGREEMENT FOR SETTING UP FUTURES/OPTIONS TRADING ACCOUNT with the trading participant (or when the client is an agency firm, the unit of the applicant customer who executes the agreement with the agency firm). However, the Clearing Member may submit Position Report at more granular unit. | <p>the exercise and assignment of an Option on JGB Futures on the current day shall be included in the Position Report.</p> <ul style="list-style-type: none"> Non-Clearing Members shall provide the Designated Clearing Member with Position Report Information by the units mentioned on the left. When the Position Report for each applicant customer covered by the agency firm mentioned on the left is submitted for the Omnibus Account, a Clearing Member will receive position breakdown information for each issue from the agency firm and then submit report to JSCC. Where a Clearing Member chooses to submit the Position Report at more granular level, an opportunity for position transfer at the same granularity. |
| d. Margin Requirement Calculation / Notification Method | <ul style="list-style-type: none"> JSCC will calculate and notify to the relevant Clearing Member the Margin requirements (minimum requirements) based on the substance of Position Report submitted by the Clearing Member. | <ul style="list-style-type: none"> When notifying Margin requirements (minimum requirements), both aggregate amount for the client Omnibus Account and breakdown by Position Report unit will be notified. |

| Item | Description | Remarks |
|------------------------------|---|---|
| ③ ISA | <ul style="list-style-type: none"> Management method of client's Position, etc. using Individual Segregated Account (ISA) shall be as follows: | <ul style="list-style-type: none"> When a Non-Clearing Member desires to open multiple ISAs for its clients, it will request opening of ISA to JSCC through a Clearing Member. |
| a. Account Opening Criteria | <ul style="list-style-type: none"> ISA opening criteria shall be as follows: <ul style="list-style-type: none"> ① When a client gives notice of its desire to have its Position, etc. managed under ISA to the Clearing Member, and the Clearing Member accepts it; and ② When a Clearing Member requests an opening of new ISA to JSCC, and JSCC accepts it. | |
| b. Close-out Quantity Report | <ul style="list-style-type: none"> The Clearing Member managing Position, etc. using ISA for clients shall report the close-out quantity described in 2. (1) below daily by each ISA it opened to fix the position as at the close of a trading day. Submission cut-off time of the close-out quantity report shall be 7:00 p.m. | <ul style="list-style-type: none"> Reporting is not required for Automatic Close-Out Reporting Account described in 2.(2) below. |
| c. Position Report | <ul style="list-style-type: none"> Position Report for such ISA is not required. | |
| d. Account Setting Unit | <ul style="list-style-type: none"> ISA unit (i.e., a unit for managing Position, etc. using ISA) shall be the same as the unit of Margin requirements (minimum requirements) calculation(*) in | <ul style="list-style-type: none"> Where a Clearing Member chooses to submit the Position Report at more granular level, an opportunity for position |

| Item | Description | Remarks |
|---|---|---|
| (Granularity) | <p>principle.</p> <p>(*) The unit of Margin requirements (minimum requirements) calculation means the unit of a client who executes the AGREEMENT FOR SETTING UP FUTURES/OPTIONS TRADING ACCOUNT with the trading participant, unless the client is an agency firm, in which case, it means the unit of an applicant customer who executes the agreement with the agency firm.</p> <ul style="list-style-type: none"> • However, if the relevant client, etc. desires Margin requirement calculation and position/Margin transfer at more granular level, the Clearing Member may manage Position, etc. by setting ISA at more granular level. | transfer at the same granularity. |
| e. Margin Requirement Calculation / Notification Method | <ul style="list-style-type: none"> • JSCC will calculate and notify to the Clearing Member the Margin requirements (minimum requirements) based on the position of each ISA known to JSCC from information on the next clearing system. | |
| ④ Handling of Position, etc. of Affiliate Proprietary | <ul style="list-style-type: none"> • When all client's Position, etc. at Position Reporting unit mentioned in ② c. above and at ISA unit mentioned in ③ d. above belong to proprietary book of a person belonging to the same corporate group as a Clearing Member (hereinafter referred to as "Affiliate"), the Clearing Member must segregate such Position, etc. from those of other clients and manage at an Omnibus | <ul style="list-style-type: none"> • See Annex 3 for illustration of Affiliate Proprietary. • When placing an order to J-GATE, Affiliate orders will continue to be classified as client order. • Position, etc. of an Affiliate that is a lower layer client is allowed to be managed by a Clearing Member either at an |

| Item | Description | Remarks |
|--|---|--|
| (2) Method of Management of Proprietary Position, etc. | Account or ISA for Affiliate-Prop. <ul style="list-style-type: none"> Affiliates shall be those belonging to the same corporate group, as such term referred to in Article 5, Paragraph1, Item (2) of the Financial Instruments and Exchange Act, as the Clearing Member, and entities with high probability of simultaneous default upon default of the Clearing Member. | Affiliate-Prop account or as ordinary client's Position, etc. similarly as in a case of other clients. |
| ①Account Types for Management of Proprietary Position, etc. | <ul style="list-style-type: none"> Clearing Member's proprietary Position, etc. shall be managed in a single House account. | |
| ②Management Method of Proprietary Position, etc. Using House Account | | |
| a. Close-out | <ul style="list-style-type: none"> A Clearing Member shall submit a close-out quantity report for its proprietary | <ul style="list-style-type: none"> Reporting is not required for Automatic Close-Out |

| Item | Description | Remarks |
|---|---|---|
| Quantity Report | position mentioned in 2.(1) below daily to fix the position as at the close of trading on a trading day. • Submission cut-off time of the close-out quantity report shall be 7:00p.m. | Reporting Account described in 2.(2) below. |
| b. Margin Requirement Calculation / Notification Method | • JSCC will calculate and notify to the Clearing Member the Margin requirements (minimum requirements) based on the position of House Account known to JSCC from information on the next clearing system. | |
| (3) Introduction of Trade Allocation (Allocation Change of Market Transactions of Derivatives within each Account under a Clearing Member) Report | | |
| a. Allocation Report | • When changing an account managing its Market Transactions of Derivatives, it may change the account to which the Market Transactions of Derivatives are booked by giving an allocation report to JSCC. | • See Annex 4 for method of Allocation Report, etc. |

| Item | Description | Remarks |
|------|---|---------|
| | <ul style="list-style-type: none"> • Submission cut-off time of the allocation report shall be 6:00 p.m. | |

| Item | Description | Remarks |
|--|--|--|
| Reporting Account | <ul style="list-style-type: none"> When an account given an attribute of “Automatic Close-out Reporting Account” simultaneously holds long and short positions as a result of execution of new trades, take-up, position transfer or the like, the Close-out Quantity report in respect of the gross quantity of the cross position shall be deemed to have been submitted. | point that if close-out becomes effective as a result of post trade allocation, give-up, take-up or position transfer, correction process will not be allowed. |
| 3. Position Transfer | | |
| (1) Position Transfer Notification Cut-off Time | <ul style="list-style-type: none"> Notification and acceptance of Position Transfer shall be given during the period from 8:00 a.m. to 2:00 p.m. | |
| (2) Position Transfer Completion Timing | <ul style="list-style-type: none"> Position Transfer shall become effective at the time of an acceptance by the transferee. | |
| (3) Handling of Position Transfer Price of Futures Contracts | <ul style="list-style-type: none"> Transfer of position in Futures Contracts shall be conducted at the settlement price or the settlement value on the trading day immediately preceding the date the Position Transfer becomes effective. | <ul style="list-style-type: none"> Remain unchanged. |
| 4. Variation Margin and Options Premium | | |

| Item | Description | Remarks |
|--|--|--|
| Settlement Method (1) Net Settlement and Change of Settlement Netting Group (2) VM/OP Premium Settlement Timing ①Payment Cut-off Time ②Receiving Timing | <ul style="list-style-type: none"> For the payment and receipt of Variation Margin related to Futures Contracts and option premium (hereinafter referred to as “VM/OP Premium”), the accounts established by a Clearing Member is classified into following 2 groups, and the payment and receipt shall be performed at each of such groups: <ul style="list-style-type: none"> ① House Account and Affiliate-Prop Account (referring to an Affiliate-Prop account mentioned in 1. (1) ④above); and ② Each client account (other than Affiliate-Prop Account mentioned in 1. (1) ④above). Cut-off time for Clearing Members to pay VM/OP Premium shall be 11:00 a.m. on the next business day following the date on which VM/OP Premium accrue (referring to the date on which Variation Margin and the like accrue or the trading day on which the option contract is executed; the same shall apply hereinafter). Timing for Clearing Members to receive VM/OP Premium shall be at or after 1:00 p.m. on the next business day following the date on which VM/OP Premium accrue. | <ul style="list-style-type: none"> Under current procedures, payment and receipt of VM/OP Premium are performed after netting all VM/OP Premium for Proprietary and clients. Payment/receipt of settlement fund related to Listed Cash Trades will remain unchanged. See Annex 6 for the detailed illustration of net settlement of VM/OP Premium and settlement netting group. Under current procedures, payment cut-off time for VM/OP Premium is 1:00 p.m. Payment cut-off time for settlement fund related to Listed Cash Trades will remain unchanged (1:00 p.m.). Under current procedures, receiving timing for VM/OP Premium is 2:45 p.m. on the next business day. Receiving timing for settlement fund related to Listed Cash |

| Item | Description | Remarks |
|--|--|--|
| (3) Addition of VM/ OP Premium Settlement Method | <ul style="list-style-type: none"> • In addition to currently available VM/OP Premium settlement method, the settlement method using an account used for deposit of cash as Margin (hereinafter referred to as “Margin Account”) will be made available. • The settlement method using a Margin Account means a settlement through increasing or decreasing cash Margin (i.e. when a Clearing Member is paying VM/OP Premium, the payment will be made by deduction from the surplus in cash balance in the Margin Account, and when a Clearing Member is receiving VM/OP Premium, the receipt will be made by additional deposit of cash in the Margin account). • When crediting or debiting to/from JSCC Margin Account, a payment and receipt through JSCC account at Bank of Japan is allowed. | <p>Trades will remain unchanged (2:45 p.m.).</p> <ul style="list-style-type: none"> • See Annex 6 for the detailed illustration of newly added settlement method. • When selecting such settlement method, information of the account used for such purpose shall be notified to JSCC in advance. • When selecting such settlement method, Margin shortfall arising as a result of the payment of fund (cash) will not be allowed. (The Clearing Member shall deposit, by payment cut-off time, sufficient amount of Collateral exceeding the Margin requirement even after the payment of cash by deduction from cash balance.) • For a client using ISA for which such settlement method is selected, payment and receipt of VM/OP Premium at the level of the ISA is allowed. |
| 5. Revision of Margin Framework | | |
| (1) Margin | | |
| ①Margin Requirement | <ul style="list-style-type: none"> • The Margin requirement (minimum requirement) for each account which JSCC requests deposit from a Clearing Member shall be obtained by subtracting | <ul style="list-style-type: none"> • Remain unchanged. |

| Item | Description | Remarks |
|---|---|---|
| Calculation Method | aggregate net option value calculated in respect of option contracts position by each account from the SPAN Margin amount obtained through SPAN® (referring to Margin calculation method developed by Chicago Mercantile Exchange) in respect of positions by each of the calculation units of the minimum Margin requirement in principle. | |
| ② Change Calculation Level for and Account subject to Risk-based Margin Requirement Add-on Charge | <ul style="list-style-type: none"> • Margin requirement add-on shall be charged to the client (The unit for Omnibus account: each client in Position Report, The unit for ISA: each account) caused such add-on charge, and added to the Margin requirement for such account. | <ul style="list-style-type: none"> • Under current procedures, even in the case where add-on charge arises as a result of client position, the add-on charge is added to Margin for the Clearing Member's House Account. • However, it's allowed Clearing Members to cover Client's add-on charge by deposit of House cash or securities on condition of giving advance notification to JSCC. |
| ③ Margin Deposit Cut-off Time | <ul style="list-style-type: none"> • In the event of Margin deposit shortfall, deposit shall be made by 11:00 a.m. on the next business day following the date such shortfall occurs (calculation date). | <ul style="list-style-type: none"> • Under current procedures, Margin deposit cut-off time is noon. • Deposit cutoff time for shortfall in margin other than Margin requirement and clearing deposit, etc. will remain unchanged. |
| (2) Introduction of | | |

| Item | Description | Remarks |
|--|--|---|
| Intraday Margin | | |
| ① Purpose | <ul style="list-style-type: none"> From viewpoint of mitigating expected loss upon Clearing Member default, JSCC introduces a framework, separately from emergency margin called upon sudden market fluctuation, of recalculating risk amount at a fixed timing during every business day and calling for additional margin intraday when risk amount increases as a result of such recalculation so that Margin shortfall will not expand above a certain level. | |
| ② Intraday Margin Requirement Calculation Method | <ul style="list-style-type: none"> JSCC will recalculate risk amount based on the latest position status by each account of a Clearing Member using the calculation method prescribed by JSCC every day at 11:00 a.m., and obtain Intraday Margin requirements in the manner described below. Intraday Margin requirement calculation method shall be as follows: $\text{Intraday Margin Requirement} = \text{Margin Equivalent (House)} + \text{VM Equivalent (House)} + \text{Sum Total of Risk Amount Exceeding Collateral (per each Client Account)}$ <p>Margin Equivalent (House) means the sum of Margin requirement calculated using SPAN based on the position as at the time of calculation and Margin requirement add-on charge.</p> <p>VM Equivalent (House) means the VM equivalent obtained by marking unsettled contracts of House Futures to the latest market value and the</p> | <ul style="list-style-type: none"> See Annex 7 for the illustration of the calculation method of risk amount, etc. subject to calculation of Intraday Margin and Emergency Margin. |

| Item | Description | Remarks |
|------|--|---|
| | <p>OP Premium equivalent for House remaining unsettled at the time of calculation.</p> <p>Risk Amount Exceeding Collateral (per each Client Account) means the amount obtained by deducting Margin deposited amount (per each Client Account) from the Risk Amount (per each Client Account).</p> <p>Risk Amount (per each Client Account) = Margin Equivalent (per each Client Account) + VM Equivalent (per each Client Account)</p> <p>Margin Equivalent (per each Client Account) shall be, according to the type of client account, as follows:</p> <ul style="list-style-type: none"> • In case of ISA Sum total of Margin requirement obtained by using SPAN based on the position as at the time of calculation and Margin requirement add-on charge; • In case of Omnibus Account Margin requirement related to the relevant Omnibus Account at the close of trading on the previous business day + max{Net Requirement as at the time of calculation – Net Requirement at EOD on the previous business day, 0} + Margin requirement add-on charge applied at the close of trading on the previous business day <p>Net Requirement as at the time of calculation means the Margin requirement obtained by using SPAN based on net position as at the time of calculation regarding the Omnibus Account as one client.</p> | <p>• However, when falling under Monitoring Margin described in 5. (4) below, Margin deposited amount as well as Monitoring Margin requirement shall be deducted.</p> |

| Item | Description | Remarks |
|------------------------------------|--|---|
| ③ Application of Intraday Margin | Net Requirement at EOD on the previous business day means Margin requirement obtained by using SPAN based on net position as of the close of trading on the previous business day regarding the Omnibus Account as one client | |
| | VM Equivalent (per each Client Account) means VM equivalent obtained by marking unsettled contracts of Futures in each Client Account to the latest market price and Option Premium equivalent for each Client Account which remains unsettled as at the time of calculation. | |
| ④ Intraday Margin Deposit Deadline | <ul style="list-style-type: none"> • When Intraday Margin Requirement calculated according to ② above exceeds the latest applicable Margin requirement for the House Account by 10 million yen, then Intraday Margin requirement shall apply. • When Margin deposit shortfall occurs as a result of an application of Intraday Margin requirement for House Account, the Clearing Member shall deposit Margin by 2:00 p.m. on the same day. • Besides Japanese yen cash, For Intraday Margin, deposit of securities in lieu of cash and deposit of foreign currency cash in lieu of yen cash are allowed. | • There will be no update of the requirement so long as such threshold is not exceeded. |
| (3) Emergency Margin | | |

| Item | Description | Remarks |
|---|--|---|
| ① Emergency Margin Requirement Calculation Method | <ul style="list-style-type: none"> • At the time of sudden market fluctuation (specifically, when, as of 1:00 p.m., price movement of the issue prescribed by JSCC exceeds the predetermined level), JSCC will recalculate the risk amount based on the latest position status for each account of the Clearing Member as of 1:00 p.m. using the calculation method prescribed by JSCC. • Emergency Margin Requirement calculation method shall be the same as that for Intraday Margin described in 5. (2) above. | |
| ②Emergency Margin Deposit Deadline | <ul style="list-style-type: none"> • When Margin deposit shortfall occurs as a result of an application of Emergency Margin requirement for House Account, the Clearing Member shall deposit Margin by 4:00 p.m. on the same day. • Besides Japanese yen cash, For Emergency Margin, deposit of securities in lieu of cash and deposit of foreign currency cash in lieu of yen cash are allowed. | |
| (4) Introduction of Monitoring Margin Framework | | |
| ①Purpose | <ul style="list-style-type: none"> • Under current procedures, when risk equivalent considered to be posed by unsettled contracts of a Clearing Member is recognized to be excessive comparing to the Margin amount deposited by the Clearing Member and the Clearing Member's net worth (or net asset value in case of registered financial institution), JSCC may take certain measures, such as increase of Margin or | <ul style="list-style-type: none"> • In association with an introduction of Monitoring Margin framework, Clearing Fund ad-hoc revision scheme established for the same purpose (JSCC Risk Management Notice No. 52 dated June 27, 2013) will be abolished. |

| Item | Description | Remarks |
|--|---|---|
| <p>② Monitoring Margin Trigger Threshold</p> | <p>Clearing Fund requirement for the relevant Clearing Member through the prescribed method. Now, to allow JSCC for more agile action against Clearing Members in light of recent practices of major overseas CCPs and trade status, JSCC introduces the monitoring margin framework outlined below:</p> <ul style="list-style-type: none"> • When a Clearing Member falls on either ① or ② below, JSCC will charge Margin requirement add-on to such Clearing Member and give notice of such effect (such notice shall be hereinafter referred to as “Monitoring Margin Trigger Notice”): ① Account Level Excessiveness Judgment Criteria <ul style="list-style-type: none"> • When the ratio obtained by dividing the risk amount (the amount obtained by JSCC according to the Intraday Margin requirement calculation method as the risk amount expected to be posed by the unsettled contracts within the relevant account; the same applies hereinafter) of any of the accounts of a Clearing Member (other than House Account) by the amount deposited with JSCC as Margin for the relevant account (when the amount calculated just before such timing as the amount expected to be deposited as Margin for the relevant account is large, such amount so calculated just before such timing; the same applies in ② blow) exceeds the value (Trigger Threshold) prescribed by JSCC. | <ul style="list-style-type: none"> • See Annex 8 for the illustration related to the trigger threshold, calculation frequency and the like. • Specific trigger threshold will be determined by the implementation date taking into consideration status of breach during the dry-run period (see 9. below). • The amount expected to be deposited means the Margin requirement (including Intraday Margin requirement and Emergency Margin requirement) related to the relevant account applicable at the time of the calculation. |

| Item | Description | Remarks |
|--|--|--|
| <p>③ Margin Additional Deposit when Receiving Monitoring Margin Trigger Notice</p> | <p>② Clearing Member Level Excessiveness Judgment Criteria</p> <ul style="list-style-type: none"> When the ratio obtained by dividing sum total of the risk amount of House Account and the risk amount (exceeding the amount deposited with JSCC as Margin related to the relevant account) of all accounts other than House Account in respect of all accounts of the Clearing Member (only those with positive risk amount) by the amount expected to be deposited as Margin for House Account of the relevant Clearing Member exceeds the value prescribed by JSCC (Trigger Threshold). <p>③ The Clearing Member received the Monitoring Margin Trigger Notice shall, in respect of the account for which Margin deposited with JSCC falls short of the requirement, make additional deposit in the amount at least equal to such shortfall as its House Margin within 3 hours after the time of such notice.</p> <p>• However, such time of notice falls on the hours prescribed by JSCC considering the operation hours of Japanese domestic financial infrastructures (hereinafter referred to as “Additional Deposit Exemption Hours”), the judgment of a breach of the criteria ① or ② in (1) above shall be made based on the risk amount recalculated as of the close of the night session at the financial instruments exchange market operated by OSE (if such notice is given before the opening of the night session, it means the night session which opens immediately after such notice, and if such notice is given during the night session, it means the relevant night session), and if breach is recognized, the</p> | <ul style="list-style-type: none"> Additional Deposit Exemption Hours shall be from 1:00 p.m. to 9:00 a.m. on the next business day for the time being. To contribute to Clearing Members’ risk management operation, JSCC will give notice to the Clearing Member which breached the warning threshold set by JSCC as smaller ratio than the trigger threshold. |

| Item | Description | Remarks |
|---|---|--|
| <p>④ Emergency Suspension during Additional Deposit Exemption Hours</p> | <p>additional deposit shall be made only by the Clearing Member falling under breach this time to JSCC by 10:00 a.m. on the first day following the close of such night session.</p> <ul style="list-style-type: none"> • To ensure the same level of risk management as other hours even during the Additional Deposit Exemption Hours, JSCC may temporarily suspend clearing related to Market Transactions of Derivatives with the relevant Clearing Member when the risk amount of such Clearing Member falls under the Emergency Suspension Threshold during the Additional Deposit Exemption Hours (hereinafter referred to as “Emergency Suspension”). • In principle, the Emergency Suspension shall apply during the period from the time when the Clearing Member breaches the Emergency Suspension Threshold to the time considered appropriate by JSCC. • When JSCC triggered the Emergency Suspension, it shall immediately report the details thereof to the Disciplinary Measures Assessment Committee. | <ul style="list-style-type: none"> • The Emergency Suspension is expected to deal with an extremely exceptional case, such as where, during the Additional Deposit Exemption Period during which JSCC cannot receive additional deposit of Margin, automatic trading system of a Clearing Member or a client operates abnormally, Clearing Member’s system, etc. cannot effectively deal with such abnormal action and risk amount related to such Clearing Member significantly increases. • As such, the purpose of the Emergency Suspension is to temporarily suspend abnormal trading of the relevant Clearing Member as an emergency escape measure. So, no notification to other Clearing Members will be given unless settlement failure has actually occurred or is threatened to occur. • Specific suspension threshold will be determined by the implementation date, taking into consideration breaching status during the dry-run period. |

| Item | Description | Remarks |
|---|--|---|
| <p>6. Revision of Collateral Management Framework</p> <p>(1) Revision of Scope of Eligible Collateral</p> <p>① Introduction of Foreign Currency Cash in lieu of Yen Cash</p> | <ul style="list-style-type: none"> • When depositing collateral (meaning Initial Margin, Margin, Clearing Fund, Settlement Facilitating Security Money and margin-funds for when-issue transaction; simply referred to as “Collateral” in this (1)) to JSCC in the Securities and Similar Contracts Clearing Business, deposit in the currencies other than Japanese yen (hereinafter referred to as “Foreign Currency Cash”) is allowed. • Scope of Foreign Currency Cash in lieu of yen cash (meaning Foreign Currency Cash that can be deposited as Collateral; the same applies hereinafter) shall be the United States Dollars (hereinafter referred to as “USD”) for the time being. • USD deposit unit shall be 1 dollar. • The exchange rate to be used when converting the market value of the Foreign Currency Cash in lieu of yen cash into Japanese yen shall be the telegraphic transfer spot buying rate at the Tokyo foreign exchange market expressed as | <ul style="list-style-type: none"> • No deposit of fraction less than whole USD amount (in cent) shall be permitted. • Haircut applicable to Foreign Currency Cash in lieu of yen |

| Item | Description | Remarks |
|--|--|---|
| <p>②Expansion of Scope of Eligible Foreign Bond Collateral</p> <p>③ Exclusion of some Securities from scope of Eligible Collateral</p> | <p>the value of Japanese yen per USD 1 on the second business day preceding the date of conversion.</p> <ul style="list-style-type: none"> • Deposit of Collateral using Foreign Currency Cash shall be made through a credit to the account in the name of JSCC opened at the bank selected by the Clearing Member from among the banks designated by JSCC. • As types of foreign bonds eligible for deposit as Collateral (hereinafter referred to as “Eligible Foreign Bonds”), U.K. government bonds, French government bonds and German government bonds will be newly added. • The market value to be used for evaluation of Eligible Foreign Bonds shall be the last quote on the previous day at the market in each country. • The exchange rate to be used when converting the market value of the Eligible Foreign Bonds into Japanese yen shall be the telegraphic transfer spot buying rate at the Tokyo foreign exchange market expressed as the value of Japanese yen per one unit of the currency of denomination of the bonds to be evaluated on the second business day preceding the date of conversion. • JSCC excludes non-listed investment trusts, convertible bonds and exchangeable bonds from the scope of eligible securities collateral for House and Affiliate-Prop Account of a Clearing Member. | <p>cash will be revised periodically.</p> <ul style="list-style-type: none"> • Currently, the scope of Eligible Foreign Bonds is limited to U.S. Treasuries. • Similarly as in the case of currently permitted U.S. Treasuries, the haircut applicable to each of the Eligible Foreign Bonds to be added will be revised periodically. • Because Collateral for House and Affiliate-Prop Account of a Clearing Member is expected to be immediately liquidated for the purpose of using it as loss compensation financial resources upon Clearing Member default, this revision will be implemented in |

| Item | Description | Remarks |
|--|--|---|
| <p>(2) Quantitative Limitation on Collateral</p> <p>① Quantitative Limitation, etc. related to Stock, etc.</p> | <ul style="list-style-type: none"> • When Stock, etc. exceeding 2% of issued and outstanding shares are deposited as Eligible Securities Collateral for House and Affiliate-Prop Account of a Clearing Member, JSCC may impose limitation on deposit. • When Stock, etc. exceeding 5% of issued and outstanding shares are deposited as Eligible Securities Collateral (for Client Account other than Affiliate-Prop, only the Eligible Securities Collateral whose deposit purpose is substitute deposit) for House Account, Affiliate-Prop Account and Client Account other than Affiliate-Prop of a Clearing Member, JSCC may impose limitation on deposit. | <p>light of liquidity and deposit status.</p> <ul style="list-style-type: none"> • For Client accounts other than Affiliate-Prop Account, the securities listed on the left may continue to be deposited as Collateral. • Similarly as in the case of (1) ③“Exclusion of Some Securities from Scope of Eligible Collateral,” collateral for House and Affiliate-Prop Account of Clearing Members is revised in light of liquidity and deposit status. • This covers Initial Margin, Margin, Clearing Fund, Settlement Facilitating Security Money and margin-funds for when-issue transaction. • This revision to the quantitative limitation is made in association with establishment of Affiliate-Prop Account. • For both quantitative limitations, similarly as in the case of quantitative limitation related to Stock, etc. currently in effect, ETF is out of the scope of this limitation in principle. |

| Item | Description | Remarks |
|---|--|---|
| ② Quantitative Limitation related to Bonds | <ul style="list-style-type: none"> • JSCC may impose limitation on deposit quantity of municipal bonds, special bonds, corporate bonds and yen-denominated foreign bonds (hereinafter referred to as “Corporate Bonds, etc.”). • JSCC may require additional deposit, etc. from a Clearing Member so that at least 80% of the total amount of the Collateral requirements for House and Affiliate-Prop Account of the Clearing Member is comprised of cash or Eligible Securities Collateral other than Corporate Bonds, etc. • When the ratio of non-Corporate Bonds, etc. collateral value is less than 80%, the Clearing Member shall promptly make additional deposit using cash or non-Corporate Bonds, etc. Eligible Securities Collateral. | <ul style="list-style-type: none"> • This covers Initial Margin, Margin, Clearing Fund, Settlement Facilitating Security Money and margin-funds for when-issue transaction for Securities and Similar Contracts Clearing Business. • Similarly as in the current procedures, quantitative limitation described on the left will not be imposed on client accounts other than Affiliate-Prop Accounts. • Total amount of Collateral requirement means the requirements related to Initial Margin, Margin, Clearing Fund, Settlement Facilitating Security Money and margin funds for when-issue transaction for Securities and Similar Contracts Clearing Business. |
| (3) Quantitative Limitation, etc. on Clients holding Large Position | <ul style="list-style-type: none"> • When, as a result of “7. Tiered Client Position Reporting,” it is found out that Eligible Securities Collateral of Margin related to the client holding large position concentrates on extremely illiquid collateral, JSCC may issue “improvement instruction” to the client in question through the Clearing Member acting on its behalf. | <ul style="list-style-type: none"> • In principle, Eligible Securities Collateral for client accounts other than Affiliate-Prop Account is not expected to be immediately liquidated for use as loss compensation financial resources upon Clearing Member default. However, this revision is implemented in light of the possibility of immediate liquidation of Eligible Securities Collateral related to the client holding large position as it defaults simultaneously |

| Item | Description | Remarks |
|---|--|--|
| <p>7. Introduction of Tiered Client Position Reporting</p> <p>(1) Purpose</p> <p>(2) Tiered Client Reporting</p> | <ul style="list-style-type: none"> For the purpose of refinement of “management, etc. of risks arising from tiered participation arrangement” required under “Principles for Financial Markets Infrastructures” (PFMI) and enabling prompt transfer of client position upon member default, JSCC will establish the framework of requiring reporting from Clearing Members of status of Position, etc. related to clients prescribed by JSCC positioned at lower layer than clients subject to Position Report in 1. (1) ② b. above. When the stress risk amount (the amount exceeding collateral or the aggregate amount) related to client position is equal to or more than the net worth or available funds for settlement of the Clearing Member, the Clearing Member must, upon request of JSCC, report status of position and margin requirement, status of posted collateral (when necessary) and status of client management in respect of the client whose margin requirement is the largest. | <p>with the Clearing Member and its Eligible Securities Collateral will be used as loss compensation financial resources.</p> <p>• It will be submitted via Target, and the details of reporting format, timing and the like will be separately discussed.</p> |

| Item | Description | Remarks |
|--|---|---|
| <p>(3) Measures Taken when Tiered Client Report is not Submitted by Deadline</p> <p>8. Other</p> <p>9. Implementation Date</p> | <ul style="list-style-type: none"> • If excessive position holding by a client is still suspected through the above report, the Clearing Member must, upon request of JSCC, report status of position and margin requirement, status of posted collateral (when necessary) and status of client management in respect of the tiered client of the client in question whose margin requirement is the largest within 1 week. • If either of the above reports is not submitted by respective deadline, JSCC may impose certain margin add-on related to client position, and if explanation is still not given thereafter, may give instruction to reduce its position, without seeking advice from the Disciplinary Measures Assessment Committee. • Other necessary revisions will be made. • Necessary measures for migration will be taken. • These revisions will be implemented at the same timing as the go live of the Next Clearing System (scheduled around the first quarter of 2018). • However, 4. VM/OP Premium Settlement Method will be implemented for those to be settled on the next business day following the date of the go live. • Moreover, as to 5. (4) Introduction of Monitoring Margin Framework, the | <ul style="list-style-type: none"> • Margin add-on rate of x1.3 is expected. |

| Item | Description | Remarks |
|------|--|--|
| | <p>period of approx. 6 months after the date of the go live will be set as dry-run period, and the framework will be implemented after considering and setting various variables taking into consideration status of calculation during the dry-run period.</p> <p>• Moreover, as to 7. Introduction of Tiered Client Position Reporting, will be implemented into consideration status of preparation JSCC Target System.</p> | <p>• See Remarks of 5.(4) above for variables to be set according to the status during the dry-run period.</p> |

End of Document

● Available Account, Notification Requirement/Possibility

Annex 1

| Account Type | House | | | | Client | | | | | | | |
|---------------------------------------|--------------|----------------|--------------|----------------|-------------------|----------------|--------------|----------------|-----------------------------|--------------|--------------|----------------|
| | | | | | (Affiliate-Prop) | | | | (Other than Affiliate-Prop) | | | |
| | Omnibus | | ISA | | Omnibus | | ISA | | Omnibus | | ISA | |
| | Gross | Auto Close out | Gross | Auto Close out | Gross | Auto Close out | Gross | Auto Close out | Gross | Auto-Netting | Gross | Auto Close out |
| Account Opening Possibility | Not Possible | Not Possible | Possible | Possible | Possible | Not Possible | Possible | Possible | Possible | Not Possible | Possible | Possible |
| Close-out Report | — | — | Required | Not Required | Required | — | Required | Not Required | Required | — | Required | Not Required |
| Position Report | — | — | Not Required | Not Required | Required | — | Not Required | Not Required | Required | — | Not Required | Not Required |
| Give-up / Take-up / Position Transfer | — | — | Possible | Possible* | Possible | — | Possible | Possible* | Possible | — | Possible | Possible* |
| Auto-Allocation | | | Possible | Possible | Possible | | Possible | Possible | Possible | | Possible | Possible |
| Post-Trade Allocation | | | Possible | Possible* | Possible | — | Possible | Possible* | Possible | — | Possible | Possible* |
| Using multiple position accounts | — | — | Possible | Possible | Not Possible | — | Possible | Possible | Not Possible | — | Possible | Possible |

Net Settlement of Variation Margin and Option Premium in Section 4.(1)

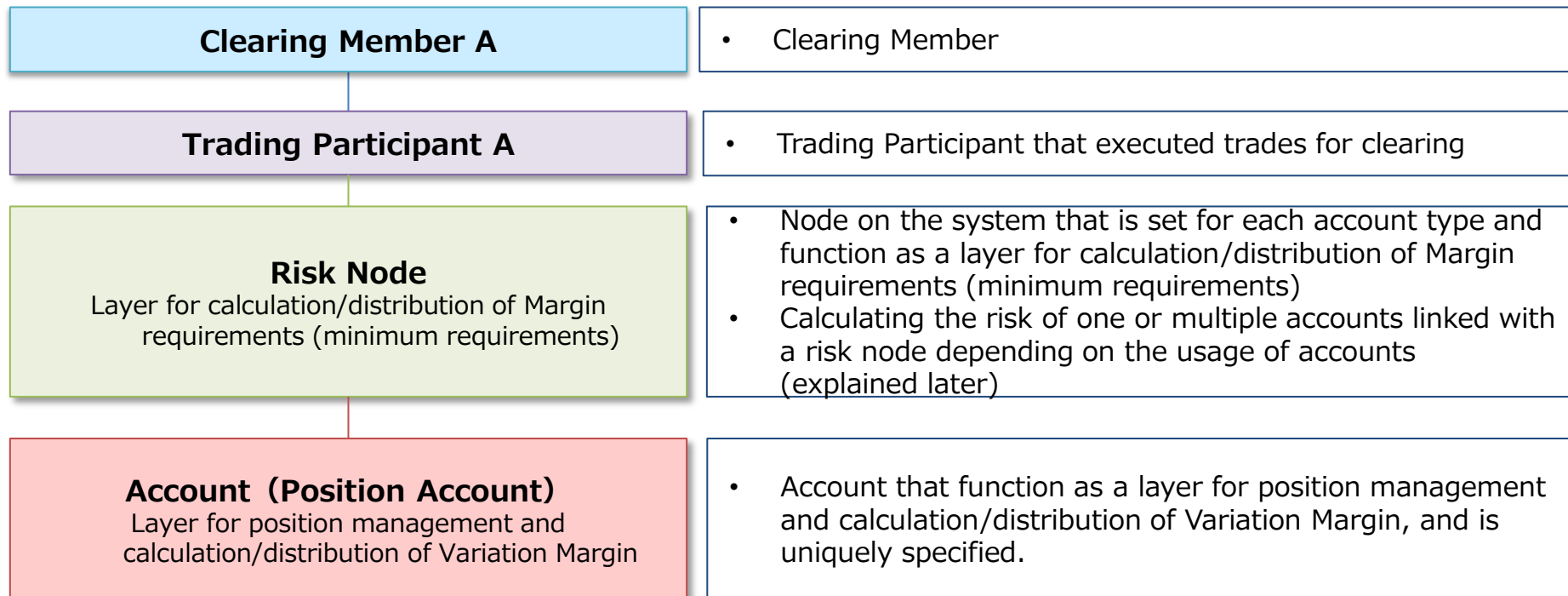
Net Settlement of Variation Margin and Option Premium in Section 4.(1)

* When Automatic Close-out Account is used, once the close-out coming into force as a result of post-trade allocation, give-up, take-up or position transfer, correction process for those instructions is not allowed. Taking that point into consideration, Clearing Members must make decision on whether or not it is possible to use Automatic Close-out Account

Concept of account

- After the launch of Derivatives Clearing Renewal Project, as JSCC will use Cinnober's package system for new Derivatives Clearing System, accounts are structured under different concept.
- Clearing Member, Trading Participant, Risk Node, and Account are main concepts in the System

Conceptual Diagram on New Derivatives Clearing system



●Cut-off times (Normal Day)

Annex 2

*Lines colored by blue can accept actions.

*Lines colored by gray cannot accept actions.

-for T Trading day Trade&Position Management

| hh mm | 7 30 | 45 | 8 0 | 15 | ~ | 15 45 | 0 | 15 | 30 | 45 | 16 0 | 15 | 30 | 45 | 17 0 | 15 | 30 | 45 | 18 0 | 15 | 30 | 45 | 19 0 | 15 | ~ | 29(5 in Nextday) 0 | 15 | 30 | 45 | 30 (6 in Nextday) 0 | 15 | 30 | 45 |
|---------------------------|---------|----|--------|----|---|----------|---|----|----|----|---------|----|----|----|---------|----|----|----|---------|----|----|----|---------|----|---|-----------------------|----|----|----|------------------------|----|----|----|
| Exercise Declaration | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Exercise and Assignment | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Give-up for T Trades *1*2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Take-up for T Session *1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Trade Allocation *1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cross Margin Declaration | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Position Report | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Close-out | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Position Transfer | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EOD VM Distribution | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EOD IM Distribution | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

*1 including amendment for trades on past trading days

*2 Including offsetting give-up for cancellation

-for Night Session Trades (T+1 Trading day) Note: Time flow of operations for Night Session trades after 6 am is same with the above one.

| hh mm | 7 30 | 45 | 8 0 | 15 | ~ | 15 45 | 0 | 15 | 30 | 45 | 16 0 | 15 | 30 | 45 | 17 0 | 15 | 30 | 45 | 18 0 | 15 | 30 | 45 | 19 0 | 15 | ~ | 29(5 in Nextday) 0 | 15 | 30 | 45 | 30 (6 in Nextday) 0 | 15 | 30 | 45 |
|-------------------------|---------|----|--------|----|---|----------|---|----|----|----|---------|----|----|----|---------|----|----|----|---------|----|----|----|---------|----|---|-----------------------|----|----|----|------------------------|----|----|----|
| Give-up for T+1 Trades | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Take-up for T+1 Session | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Trade Allocation | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

●Cut-off times (Expiration Date, etc.)

*Lines colored by blue can accept actions.

*Lines colored by gray cannot accept actions.

Today = expiration date

-for T Trading day Trade&Position Management

| hh mm | 7 30 | 8 45 | 0 | 15 | ~ | 45 | 0 | 15 | 30 | 45 | 0 | 15 | 30 | 45 | 0 | 15 | 30 | 45 | 0 | 15 | 30 | 45 | 0 | 15 | ~ | 29(5 in Nextday) | 0 | 15 | 30 | 45 | 0 | 15 | 30 | 45 |
|---------------------------|---------|---------|---|----|---|----|---|----|----|----|---|----|----|----|---|----|----|----|---|----|----|----|---|----|---|------------------|---|----|----|----|---|----|----|----|
| Exercise Declaration | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Exercise and Assignment | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Give-up for T Trades *1*2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Take-up for T Session *1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Trade Allocation *1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cross Margin Declaration | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Position Report | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Close-out | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Position Transfer | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EOD VM Distribution | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EOD IM Distribution | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

*1 including amendment for trades on past trading days

*2 Including offsetting give-up for cancellation

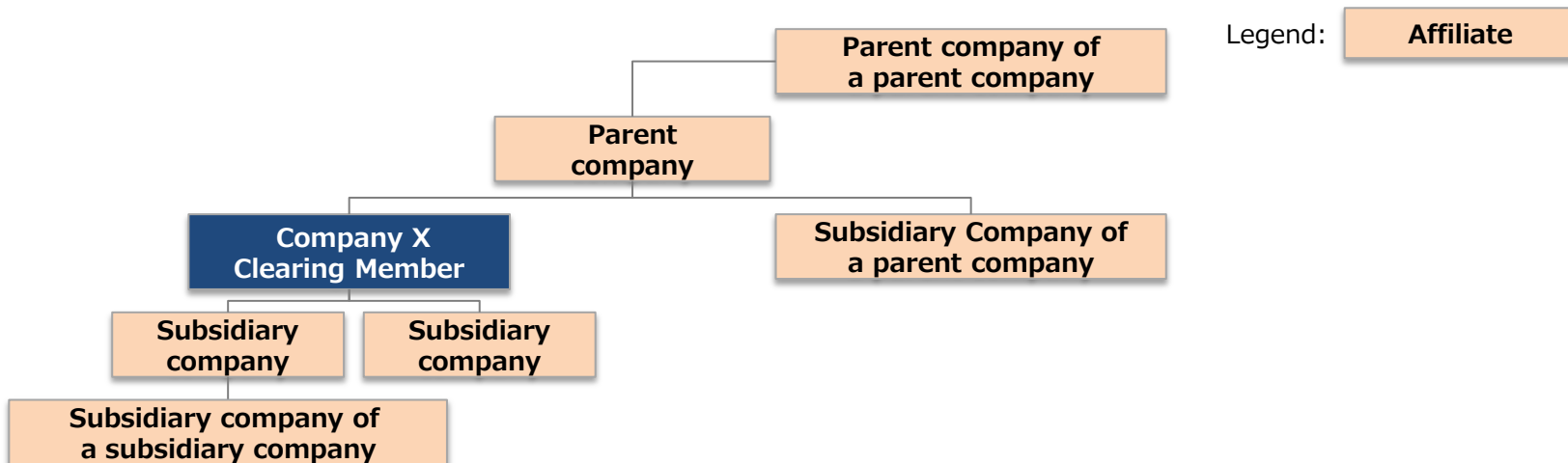
-for Night Session Trades (T+1 Trading day) Note: Time flow of operations for Night Session trades after 6 am is same with the above one.

| hh mm | 7 30 | 8 45 | 0 | 15 | ~ | 45 | 0 | 15 | 30 | 45 | 0 | 15 | 30 | 45 | 0 | 15 | 30 | 45 | 0 | 15 | 30 | 45 | 0 | 15 | ~ | 29(5 in Nextday) | 0 | 15 | 30 | 45 | 0 | 15 | 30 | 45 |
|-------------------------|---------|---------|---|----|---|----|---|----|----|----|---|----|----|----|---|----|----|----|---|----|----|----|---|----|---|------------------|---|----|----|----|---|----|----|----|
| Give-up for T+1 Trades | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Take-up for T+1 Session | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Trade Allocation | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

- Affiliates shall be those belonging to the same corporate group, as such term referred to in Article 5, Paragraph1, Item (ii) of the Financial Instruments and Exchange Act, as the Clearing Member.
(Representative examples ※Refer to the diagram below)
 - Clearing Member's subsidiary company (Including Subsidiary company of a subsidiary company (Second-tier subsidiary company))
 - Clearing Member's parent company
 - Subsidiary company of Clearing Member's parent company (Fellow subsidiary company or overseas local subsidiary)
 ※It does not matter whether a company is domestic or foreign.

(Article 5, Paragraph1, Item (ii) of the Financial Instruments and Exchange Act)

(ii) trade name of the company, financial conditions of the Corporate Group (meaning the group consisting of the company and other persons (limited to companies or other organizations specified by a Cabinet Office Ordinance) who satisfies the requirements specified by a Cabinet Office Ordinance as those for being regarded as having a close relationship with the company, including the requirement that the company holds the majority of voting rights of the person who is a company; the same shall apply hereinafter) to which the company belongs and of the company, other important matters concerning the company's business and other matters specified by a Cabinet Office Ordinance as necessary and appropriate for the public interest or protection of investors.



● Allocation Methods

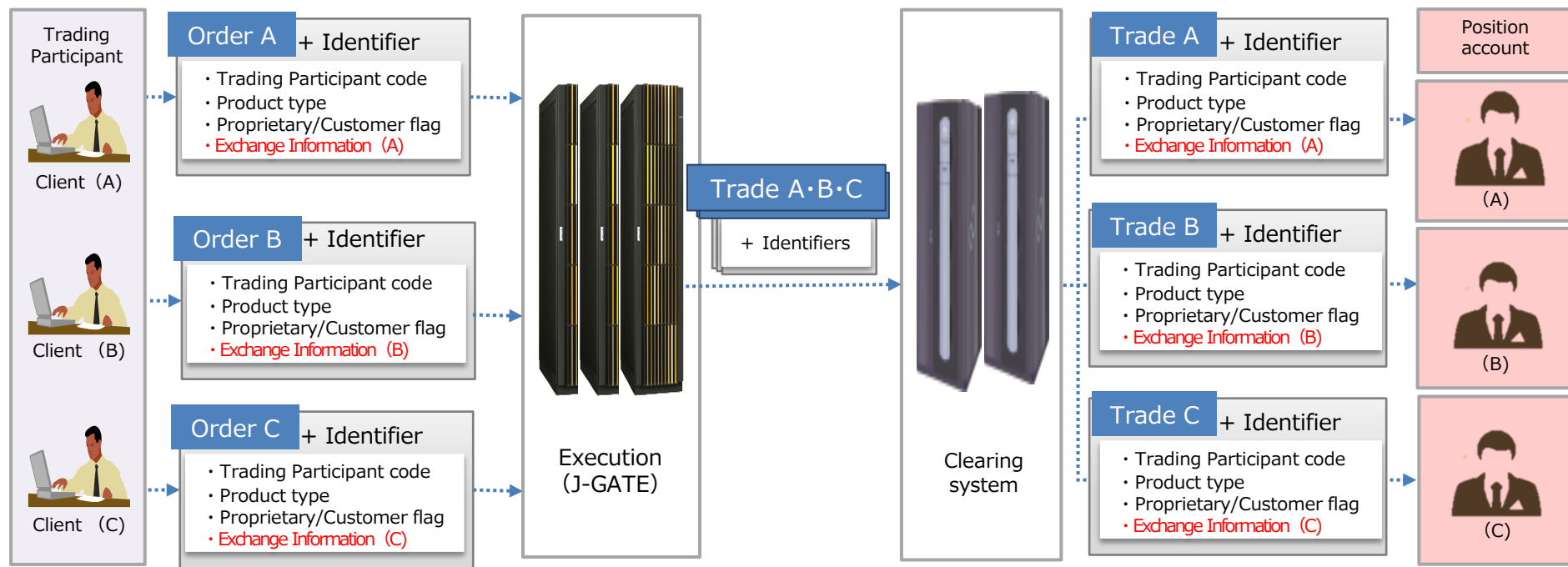
Operational Flow when Using Auto Allocation①

Annex 4

Order: Identifier Setting

Trade ~ Trade Data Transmission

Auto Allocation by Identifier



• Auto allocation using Exchange Information

- Auto allocation is done by referring to “Trading Participant Code”, “Product type”, and “Proprietary/Customer flag”, and 23rd to 30th byte on “Exchange Information” advised from J-GATE.
- That field can be used when order placement message MO31 is used, but cannot be used for MO96 (mass quote)
- When an allocation account will be identified by using 23rd to 30th byte on “Exchange Information,” the **destination account name itself** set on new Derivatives Clearing System will be set.

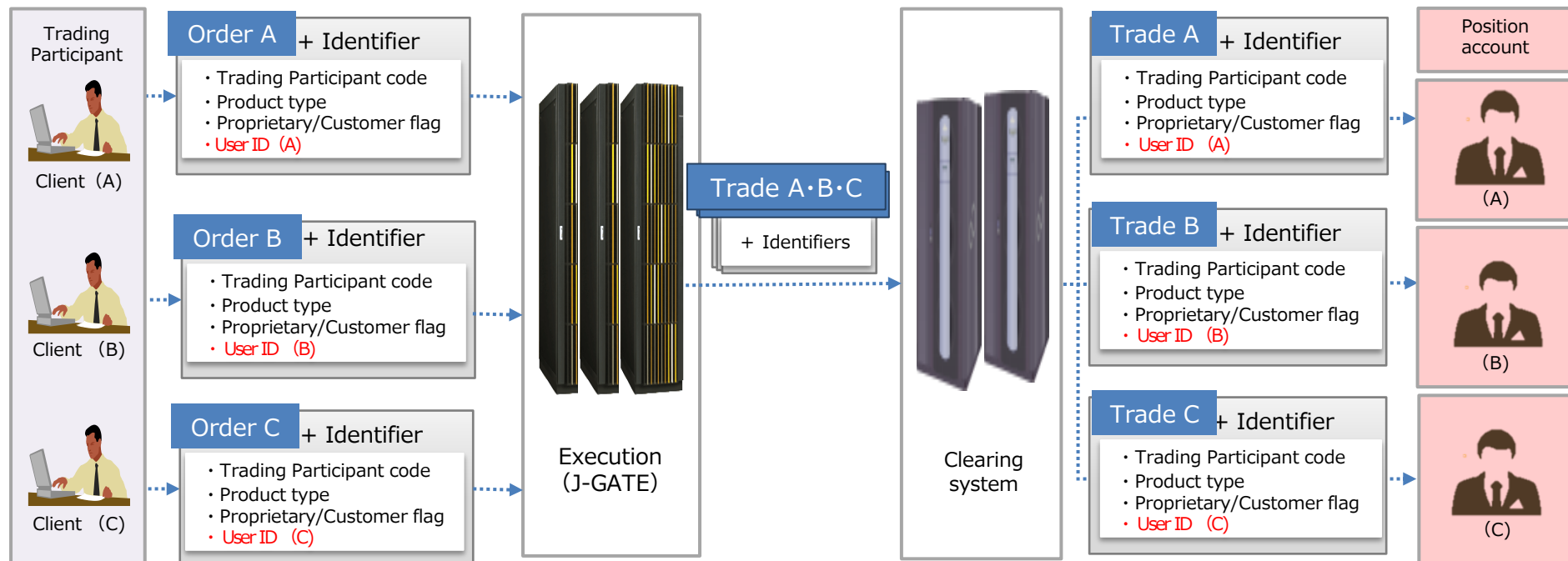
● Allocation Methods Operational Flow when Using Auto Allocation②

Annex 4

Order: Identifier setting

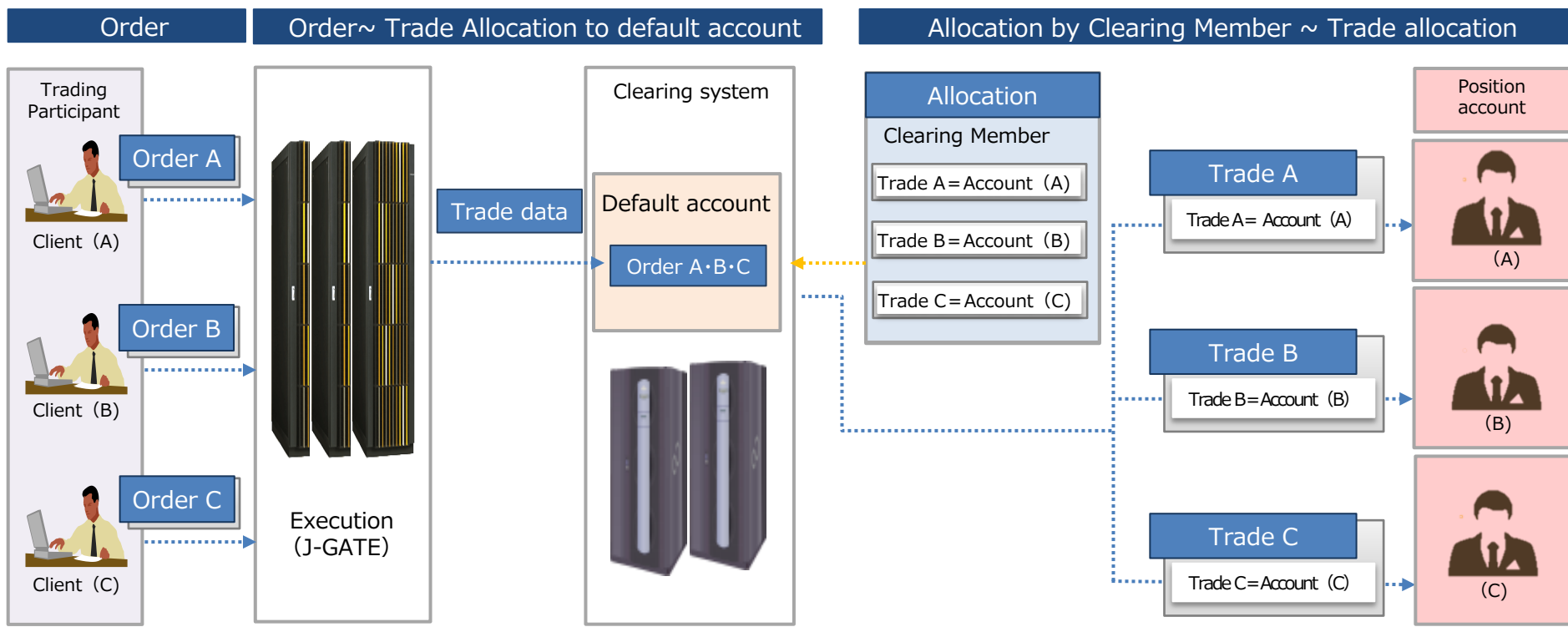
Trade ~ Trade data transmission

Auto allocation by identifier



• Auto allocation using (Participant) User ID

- When an allocation account will be identified by using “(Participant) User ID,” an account to which trades are to be allocated (mapping rule) shall be set in advance via GUI or API. (Mapping rule can be set with general user authority.)
- Mapping of multiple “(Participant) User IDs” to one “Allocation Account” will be allowed (see example on the attachment). However, in order to uniquely identify allocation account, “(Participant) User ID” shall be set on J-GATE in such manner that enables unique identification under proprietary and customer group. (In other words, same identification information may not be used for affiliate-prop and client.)



- Allocation of trades to each account based on the allocation request subsequently submitted by a Clearing Participant (Post Trade Allocation)
 - Temporarily allocate new trades to a specific default account, and then allocate trades to each account based on the allocation request by a Clearing Participant
 - Allocation notification cutoff time shall be 6 : 00 p.m.
 - CCP will initially set one default account each for proprietary and customer. A Participant may designate another account as default account. Moreover, a default account may be used for ordinary operations.

● Method of Close-out Quantity Report

- Clearing Member shall notify sum total of below quantities as Close-Out quantity.
 - ① Out of today's trades, aggregate quantity of trades used for offsetting purchase/sale.
 - ② Cross position as a result of position transfer used for Close-Out
- Position fixing method for close-out will be different from the one used under current procedures.

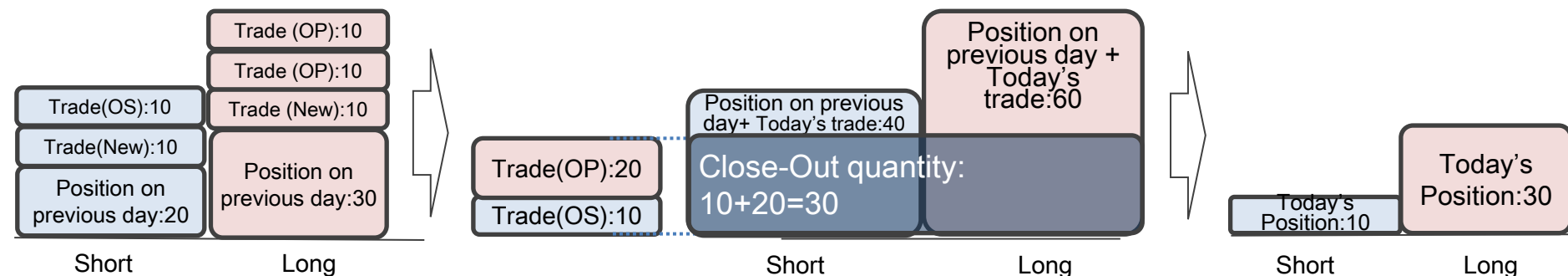
Example (Close-Out for today's trade)

At the time of trade (before report)

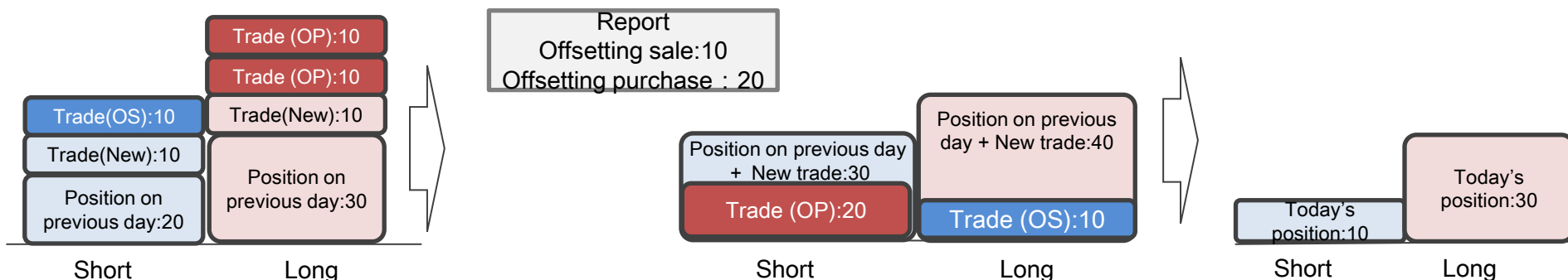
Report

Fixing today's position

Close-Out (After derivatives clearing renewal project)



Offsetting purchase/sale (Current)

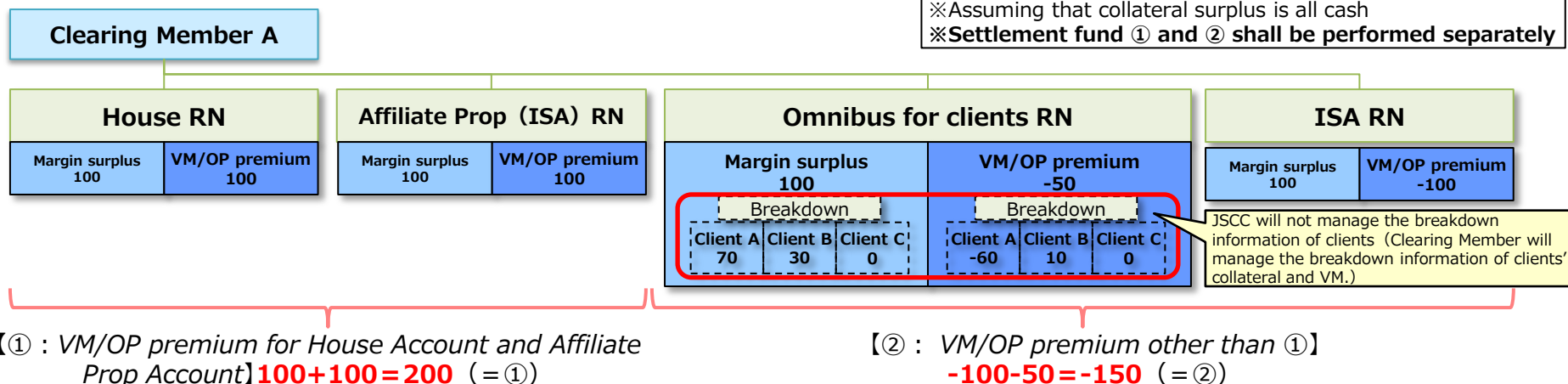


* Offsetting Purchase =OP, Offsetting Sale=OS

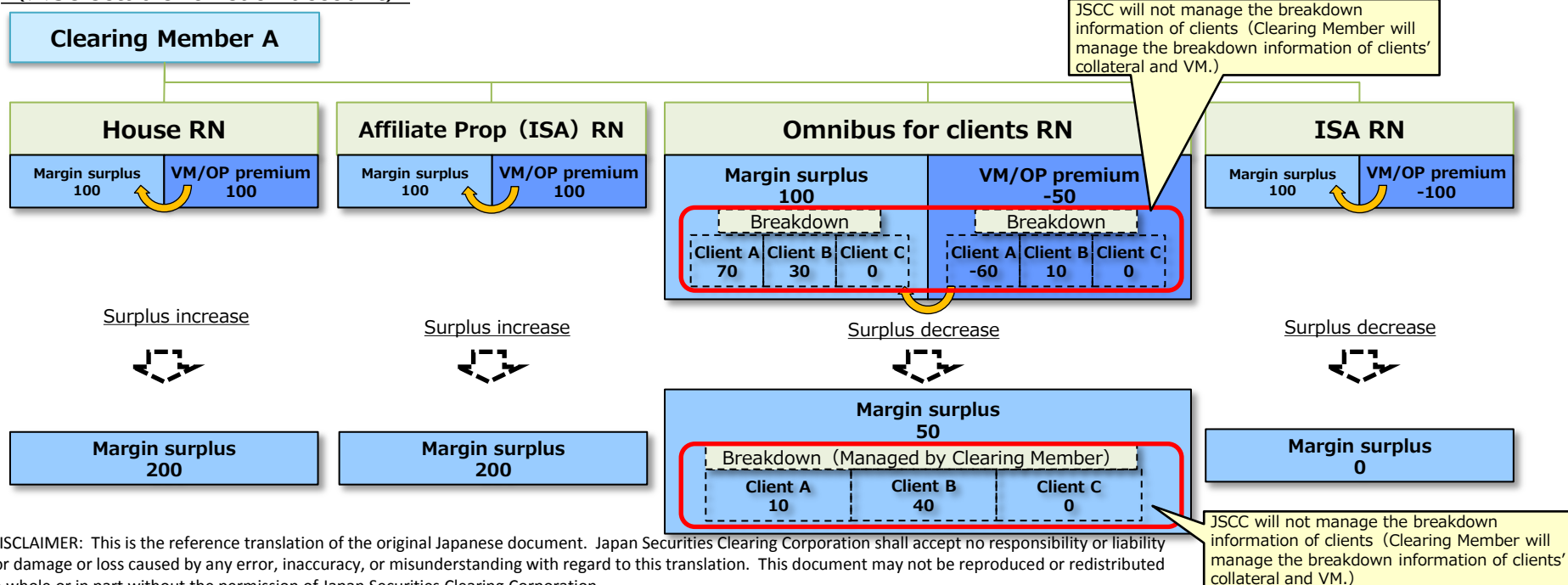
DISCLAIMER: This is the reference translation of the original Japanese document. Japan Securities Clearing Corporation shall accept no responsibility or liability for damage or loss caused by any error, inaccuracy, or misunderstanding with regard to this translation. This document may not be reproduced or redistributed in whole or in part without the permission of Japan Securities Clearing Corporation.

● When Settling VM/OP premium using settlement account (Same as current method)

※Positive number: Receipt of VM/OP premium
Negative number: Payment of VM/OP premium
※Assuming that collateral surplus is all cash
※Settlement fund ① and ② shall be performed separately

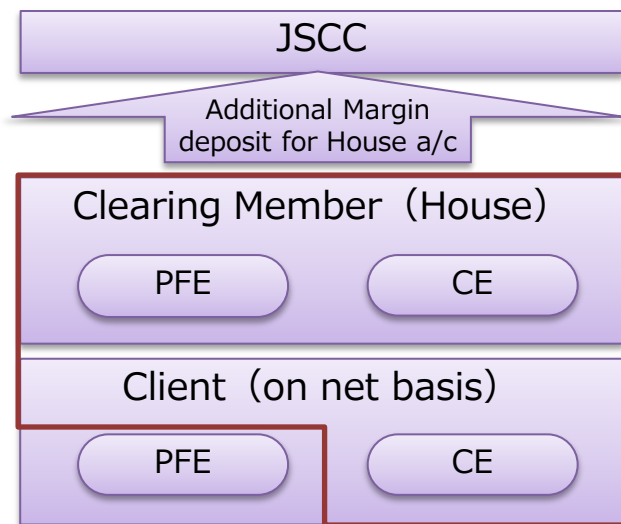


● When Settling VM/OP premium using an account used for deposit of cash as Margin (※Selectable for each account)



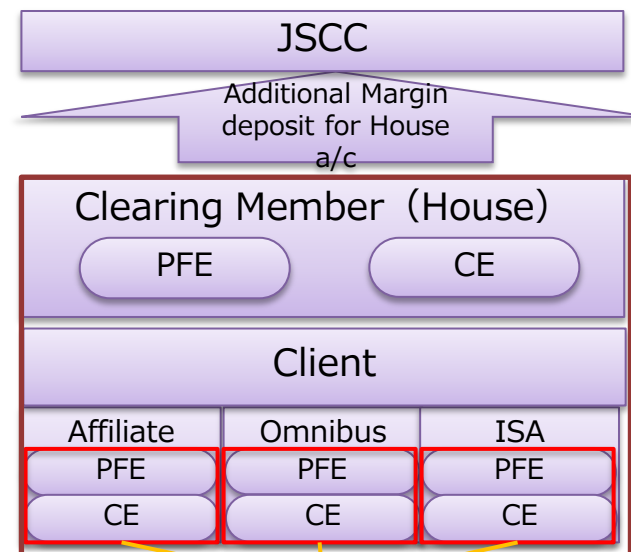
【 Current Emergency Margin 】

- Only risk amount (PFE) for house position is recalculated by SPAN®
- VM/OP Premium equivalent (CE) for house and client is recalculated, respectively.
- Aggregate the above PFE and CE, JSCC requires deposit of Margin for house a/c



【Intraday Margin and Emergency Margin after change】

- PFE by account for house and client position is recalculated by SPAN®, respectively.
- CE for house and client is recalculated, respectively.
- Aggregate the above (PFE and CE subject to aggregation will be shortfall as a result of “(PFE+CE)-Deposited Margin”), and JSCC requires deposit of Margin for house a/c



- Calculate “(PFE+CE)-Deposited Margin” for each account, and add shortfall to house Margin requirement

● Intraday Margin/Emergency Margin Calculation Method ②

Illustration of PFE calculation for omnibus account

Annex 7

- For simplicity sake, PFE calculation for intraday margin will be conducted by regarding Client (Omnibus) a/c as 1 client.
(Assumption)
 - ✓ Clearing Member A manages trades/positions of Client12345, Client 23456 and Client 34567 at Client (Omnibus) a/c.
 - ✓ Clearing Member A reported position information of each of Client 12345 and Client 23456 as Day T's Position Reporting. Based on the reported information, JSCC calculates requirement for Client (Omnibus) a/c.
 - ✓ Each client under Client (Omnibus) account executed trades as shown in the chart on the right below before Intraday Margin calculation timing on the next day
 - ✓ Margin for 1 unit of position (Price Scan Range: PSR) is JPY100,000 on previous day, and JPY130,000 at Intraday Margin calculation timing

| At Close of Pervious Business Day (EOD on Previous Day) (Day T) | | | | New Trades in Day T+1 (at Intraday Margin Calculation Timing) | |
|--|-------------|--------------------|--------------------|---|--------------|
| Client | (Sell, Buy) | Margin Calculation | Margin Requirement | Client | (Short/Long) |
| Client 12345 | (10,0) | $ 0-10 *10(PSR)$ | JPY1 mil | Client 12345 | (5,0) |
| Client 23456 | (10,50) | $ 10-50 *10(PSR)$ | JPY4 mil | Client 23456 | (10,10) |
| Requirement at EOD on Pervious Day | (20,50) | - | JPY5 mil | Total | (15,10) |

Intraday Margin Calculation Method for Client (Omnibus) a/c for this example is as follows

| Intraday Exposure Change is added to Total Requirement at Previous Day EOD | | | |
|--|-------------|--|----------------------|
| Client | (Sell, Buy) | Margin Calculation | Intraday Requirement |
| EOD Margin Req. on Previous Day | - | - | JPY5 mil |
| Intraday Exposure Change | - | $\text{Max}\{ (60-35)*13(PSR)- 50-20 *10\}, 0\}$ | JPY250,000 |
| Total Req. | - | - | JPY5.25mil |

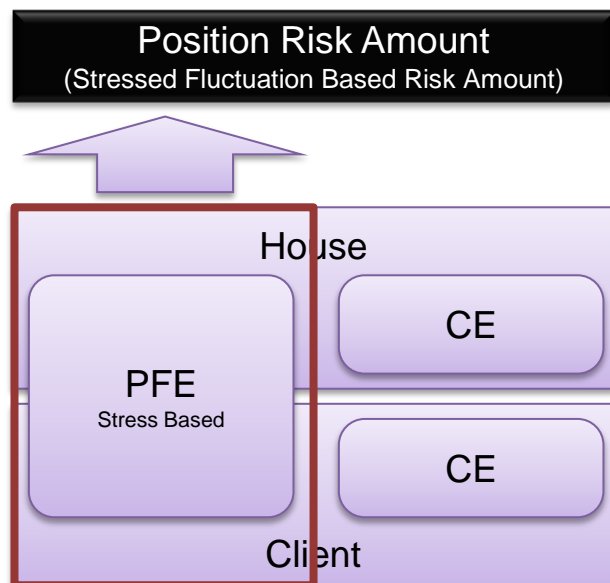
• Obtain net position of Client (Omnibus) a/c as 1 client by subtracting 35 (EOD short 20 + Today's short 15) from 60 (EoD long 50 + today's long 10)

• Obtain net position of Client (Omnibus) a/c as 1 client by subtracting EOD Short 20 from EOD long 50

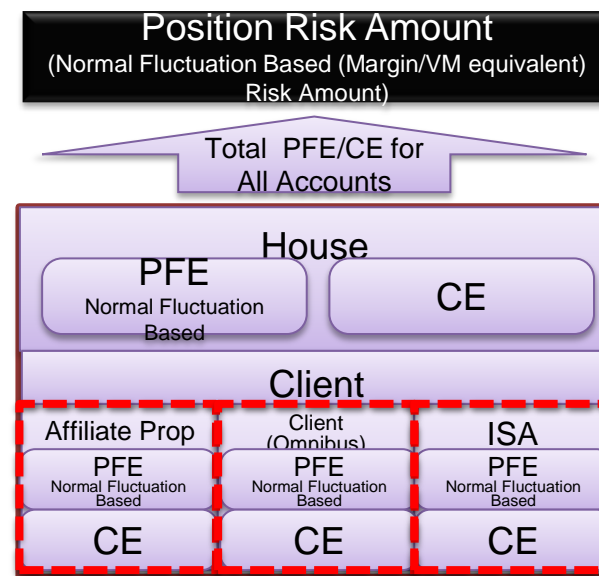
- There are some issues in the frequency and granularity of current position risk amount calculation in terms of the accurate and early detection of a sudden increase in position risk. So, the following revisions will be made following the practices of overseas CCPs.

- ① Calculation frequency to be more frequent than current practice of once / 30 min. (once/hr. during night)
- ② Calculation granularity be account level as well as Participant level
- ③ Change type of risk amount to be calculated from stressed price fluctuation based PML (Probable Maximum Loss) to normal fluctuation based Margin /VM equivalent

【 Current Position Risk Amount Calculation 】



【 Position Risk Amount Calculation after Revision (Proposal) 】



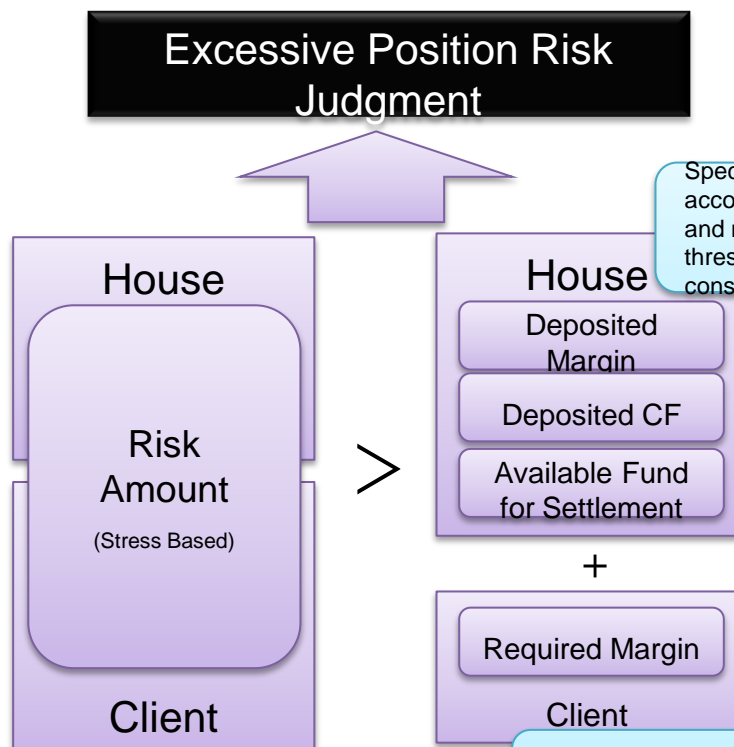
: Position Risk Amount by Participant
 : Position Risk Amount by Account

(Note) So-called “PML” is defined as expected loss due to approx. 20% market fluctuation for 2-day for Nikkei 225 (if index level is 20,000 yen, then 4,000 yen fluctuation). If this is changed to margin based, risk amount will be expected loss due to market fluctuation equivalent to price scan range (780 yen per day in recent market).

● Introduction of Monitoring Margin Framework ② (Excessive Position Risk Judgment Method)

- When judging excessive position risk via gross position risk amount at Clearing Participant level, check the Margin/VM equivalent based risk amount to see if it exceeds deposited Margin, etc. by pre-determined ratio(*).
 - * Ratio to be prescribed by JSCC taking into consideration net worth or available funds for settlement, CF deposited amount of each Participant (specific method is to be considered).
 - Under existing CF ad hoc revision scheme, risk is compared against House/Client Margin, CF and available funds for settlement for excessive position risk judgment.
- In excessive position risk judgment method via account level position risk amount to be newly introduced, risk amount is compared against deposited margin of each account to avoid advance risk, etc. from non-payment at account level.

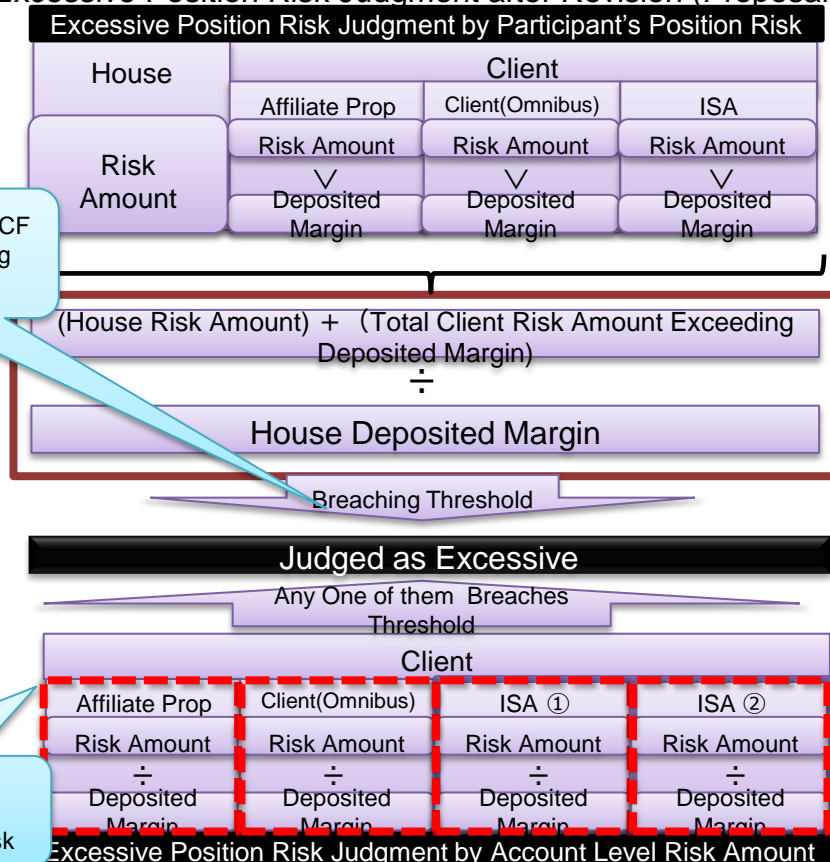
【 Current Excessive Position Risk Judgment 】



Specific method to account for deposited CF and net worth in setting threshold is to be considered.

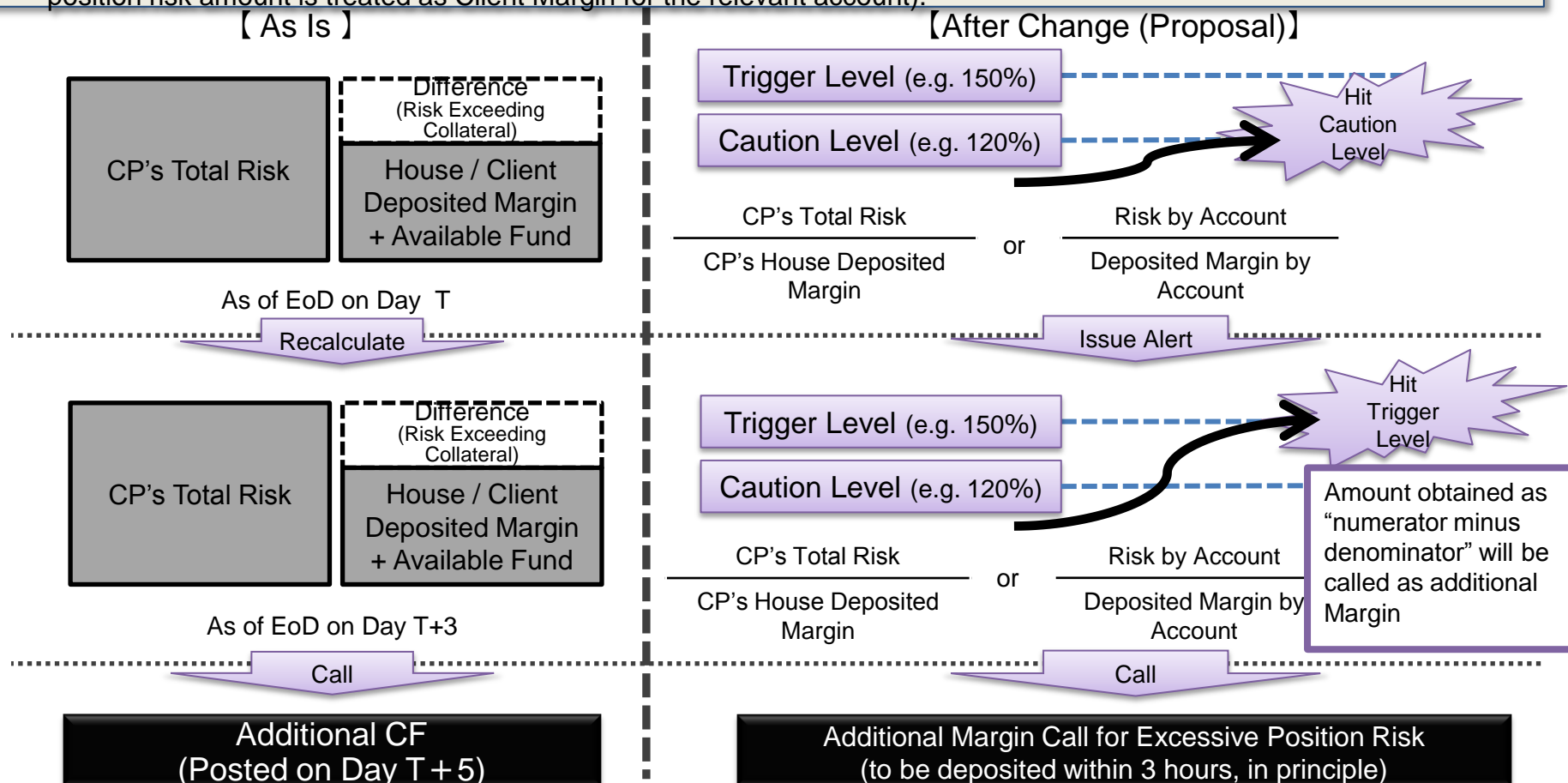
If ratio of risk amount to deposited Margin exceeds certain level, the account holds excessive position risk

【 Excessive Position Risk Judgment after Revision (Proposal) 】



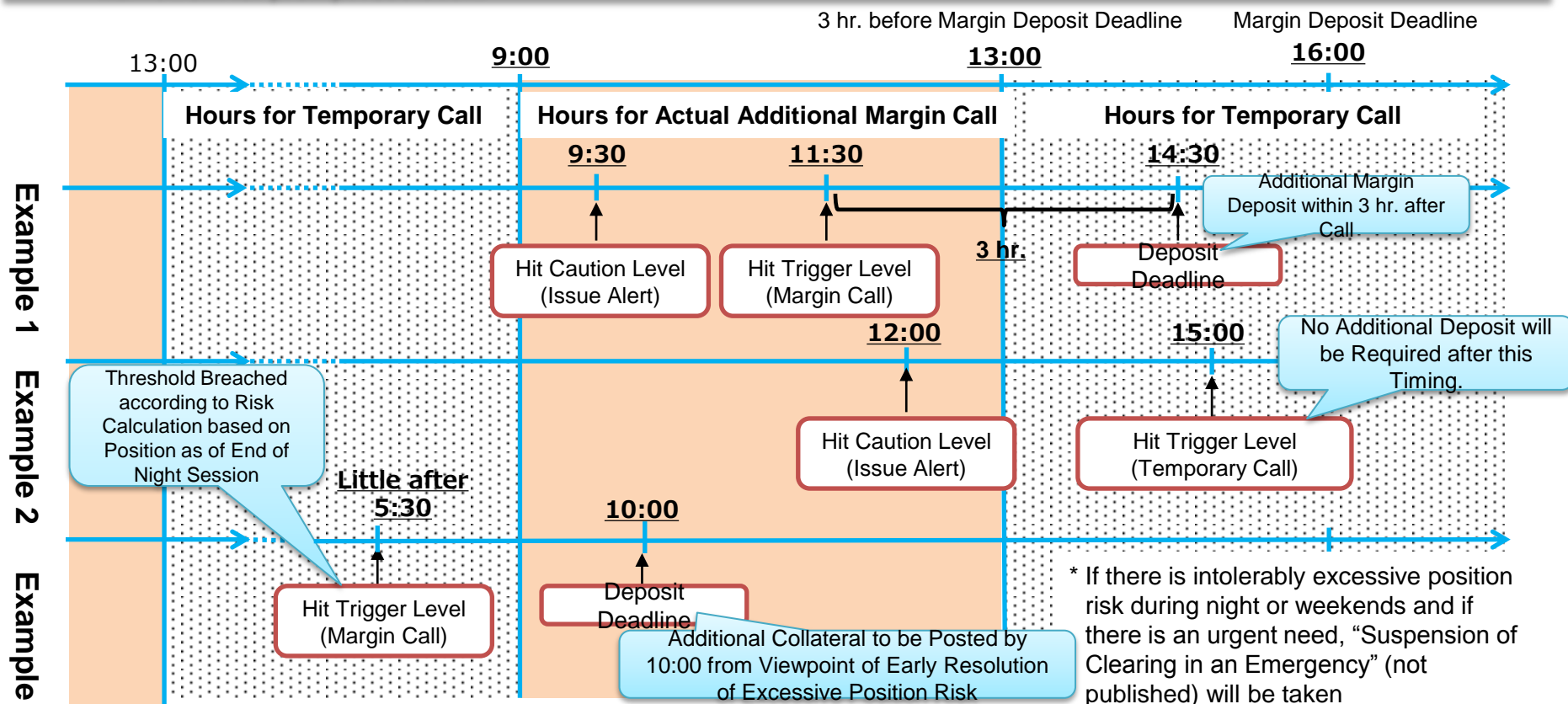
● Introduction of Monitoring Margin Framework ③ (Additional Collateral Call)

- From viewpoint of prompt resolution of excessive position risk, alert to be issued at certain caution level, and if higher threshold is breached (trigger level), immediately call for additional collateral to be posted within 3 hours
 - Under current CF ad hoc revision scheme, when excessive position risk is recognized, it will be recalculated using the position 3 days later, and request additional deposit if not improved
- Classification of additional collateral will be changed from CF to House Margin to secure defaulter-pay type collateral posted by a party obligated to properly control positions, including those of clients, and to avoid higher capital charge under Basel Accord (on system, Margin charged as a result of excessive position risk judged according to account level position risk amount is treated as Client Margin for the relevant account).



● Introduction of Monitoring Margin Framework ④ (Deal with Night Hours)

- Because calling for additional Margin during night or weekends is difficult, following measures will be taken as alternative measures.
 - ① “Temporary Call” when exceeding trigger level for excessive position risk. (no actual call)
 - ② If threshold is breached at risk calculation based on position as of the end of night session (5:30), additional Margin shall be deposited by 10:00 from viewpoint of early resolution of excessive position risk.
 - ③ If there is intolerably excessive position risk during night or weekends and if there is an urgent need, “Temporary Suspension of Clearing in an Emergency” (not published: risk mitigating trades will be allowed) will be taken as a CCP’s framework for prompt resolution.



(Note) Each timing will finally be set considering CP’s operational burden and deadline at related infrastructures, such as BOJ, commercial banks and JASDEC.