

Outline of Revision associated with Shortening of Stock Settlement Cycle (toward T+2)

September 28, 2017

Japan Securities Clearing Corporation

I . Purpose

In the Final Report published by “Working Group on Shortening Stock Settlement Cycle” in June 2016, it is scheduled that the necessary works toward T+2 Stock Settlement Cycle should be proceeded assuming the first business day after the consecutive holidays in April or May 2019 as targeted implementation date and required revisions such as shortening of settlement cycle at each of designated market operators, etc. are planned to be made. JSCC will therefore, proceed with required revisions of the system in relation to each item referred to in the Final Report, and newly introduce the scheme in which Receiving Participants can voluntarily make an offer to subordinate their relative priority in securities receipt for each issue among participants (herein after referred to as “Scheme for Subordination of Priority in Securities Receipt based on Voluntary Notification”) in light of mitigating impact on Fail_Receiver Participants at the time of occurrence of delivery failure of securities.

II . Outline

Item	Description	Remarks
1. Measures associated with T+2 Stock Settlement Cycle		
(1) Change in Date of Restriction on Delivery Failure of Securities (Fail Prohibition Date)	<ul style="list-style-type: none">As for issues delisted from all of financial instruments exchanges, the third business day counting from the previous day of the date of delisting shall be the date of restriction on delivery failure of securities (Fail Prohibition Date).	<ul style="list-style-type: none">Currently, the fourth business day counting from the previous day of the date of delisting is the Fail Prohibition Date.
(2) Change in Calculation Method of Delay Compensation related	<ul style="list-style-type: none">The calculation method of Delay Compensation related to delivery failure of securities shall be changed from the current counting method based on business days	<ul style="list-style-type: none">Refer to Annex 1 for specific example.As to the level of rate for the Delay

Item	Description	Remarks
to Delivery Failure of Securities	to the one based on calendar days.	Compensation that is paid by Fail_Deliverer Participant, current level (JPY0.04 per JPY100) shall be unchanged.
(3) Acceleration of Buy-In Execution Timing	<ul style="list-style-type: none"> Buy-In execution timing shall be accelerated one business day from the current timing thus Buy-In shall be executed on the third day counting from the Buy-In Request Date. 	<ul style="list-style-type: none"> The change associated with one business day acceleration of procurement when Buy-In Cost Bearing Participant executed offsetting purchase at the market as a result of the implementation of T+2 settlement cycle. Refer to Annex 2 for example of time schedule.
(4) Settlement Cut-Off Time for Lending and Borrowing of Securities related to Due Bill	<ul style="list-style-type: none"> Settlement for lending and borrowing of stock related to Due Bill shall be executed by the fourth day counting from Due Bill issuance date in principle. 	<ul style="list-style-type: none"> It is currently prescribed that the settlement cut-off time is the fifth day from Due Bill issuance date .
(5) Others	<ul style="list-style-type: none"> Other necessary revision will be made. 	<ul style="list-style-type: none"> As to Rights Adjustment between Clearing Participants upon occurrence of settlement failure on Record Date, etc., while maintaining the current concept that flexible treatment is enabled as it shall eventually be a matter of individual arrangements between the Clearing Participants, JSCC plans to establish “Guidance for Clearing Participants

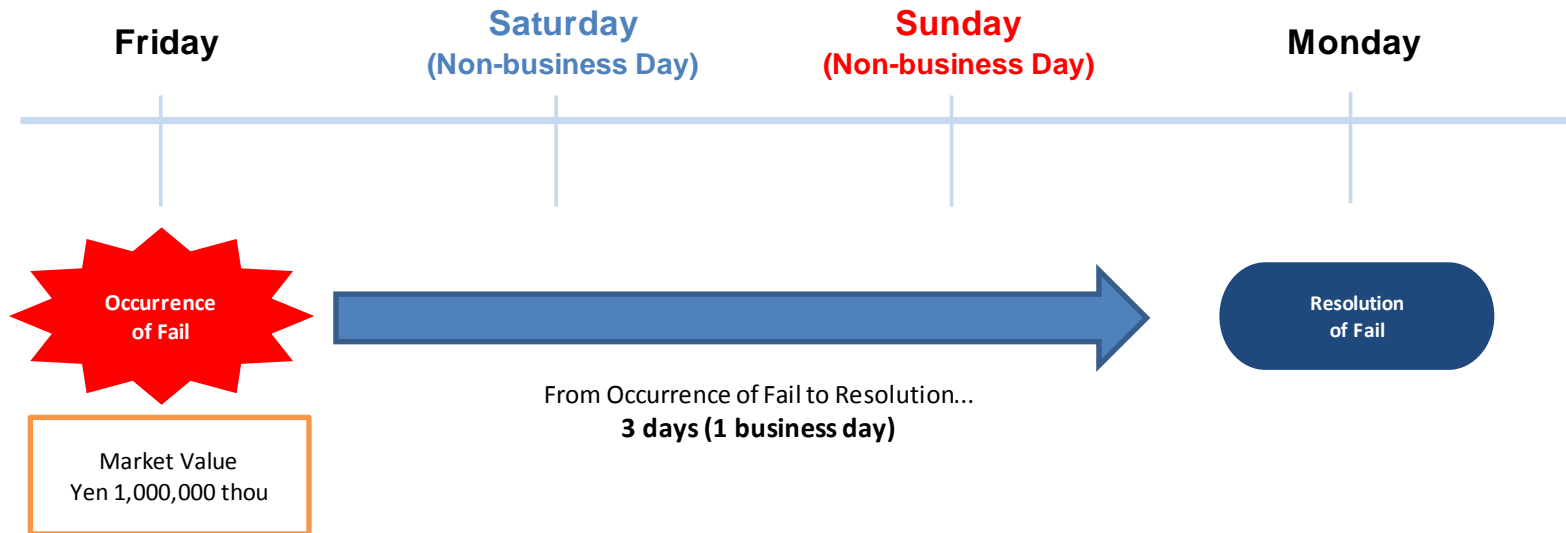
Item	Description	Remarks
<p>2. Introduction of Scheme for Subordination of Priority in Securities Receipt based on Voluntary Notification</p> <p>(1) Procedures for using the scheme</p>	<ul style="list-style-type: none"> Clearing Participants may, for the issues with receiving position (excluding position to which Buy-In had been requested) from JSCC, notify JSCC of the quantity for which they have no difficulties when subordinating their priority in securities receipt among participants. When JSCC receives such notification, JSCC shall set the lowest priority on the Receiving Participants for the issue(s) for the notified quantity. Participants who are willing to use the Scheme for Subordination of Priority in Securities Receipt based on Voluntary Notification shall notify JSCC of the start of using the Scheme by submitting a form filling in the items specified by JSCC and 	<p>upon Occurrence of Delivery Failure on a Record Date” (appendix). The guidance sets forth the method of clearing rights to be followed by the Fail_Deliverer Participant and the Fail_Receiver Participants as much as possible in the absence of specific requirement associated with individual case and it will apply from the effective date of this Revision.</p> <ul style="list-style-type: none"> Refer to Annex 3 for outlines of the scheme. When multiple Clearing Participants make such notifications for the same settlement date and issue, priority in receipt between the notifications shall be determined by lottery. Items such as expected user for the scheme (e.g. classification of proprietary or clients, etc.) and methods to figure out / manage the

Item	Description	Remarks
(2) Notification Method	<p>obtain authorization from JSCC in advance.</p> <ul style="list-style-type: none"> Participants using the Scheme for Subordination of Priority in Securities Receipt based on Voluntary Notification shall submit JSCC the issue and the quantity for which they have no difficulties when subordinating their priority in securities receiving by the time prescribed by JSCC on the previous business day of the settlement date. 	<p>available balance will be required to be written on such form.</p>
(3) Handling of Delay Compensation	<ul style="list-style-type: none"> When delivery failure of securities is assigned to receiving position for which the Voluntary Notification has been made, JSCC shall pay the Delay Compensation of JPY0.03 per JPY100 (JPY0.03 instead of usual delay compensation of JPY0.04) of failed value (the amount calculated based on the DVP Settlement Price on the relevant day multiplied by such assigned quantity of delivery failure of securities) to relevant Fail_Receiver Participant. 	<ul style="list-style-type: none"> For Delay Compensation applied to Fail_Deliverer Participant, the existing rate (JPY0.04 per JPY100) will be applied regardless of whether the quantity of Fail_Receiver Participant is the user of the Scheme for Subordination of Priority in Securities Receipt based on Voluntary Notification or not.

III. Implementation Date

• Implementation Date will be determined in light of system updates and test schedule, etc. towards the Shortening of Settlement Cycle at JSCC, Exchanges, Clearing Participants and related institutions assuming the first business day after the consecutive holidays in April or May 2019 as targeted implementation date.

End of Document



○ Assuming that Market Value is Yen 1,000,000 thou.

- Current scheme counts Delay Compensation on a business day basis. As business day till resolution of fail is one day in the above example, Delay Compensation on Market Value of Yen 1,000,000 thou would be Yen 400 thou.

$$\text{Yen 1,000,000 thou} \times \text{Yen 0.04} \div \text{Yen 100} \times \underline{1 \text{ day}} = \text{Yen 400 thou}$$

- New scheme counts Delay Compensation on a calendar day basis. As there are three days till resolution of fail in the above example, Delay Compensation on Market Value of Yen 1,000,000 thou would be Yen 1,200 thou.

$$\text{Yen 1,000,000 thou} \times \text{Yen 0.04} \div \text{Yen 100} \times \underline{3 \text{ days}} = \text{Yen 1,200 thou}$$

Current Cycle (T+ 3 Settlement)	
Date	Description
Day X	Occurrence of Fail
X+ 1 day (Request day)	Buy-In Request
	Assignment of Participant Subject to Cost Bearing (Tentative) (14 : 30~)
X+2 days	
X+3 days	
X+4 days (Request day +3)	Buy-In Execution
X+5 days	Settlement related to Buy-In Execution

After Implementation of T+2 Settlement Cycle	
Date	Description
Day X	Occurrence of Fail
X+ 1 day (Request day)	Buy-In Request
	Assignment of Participant Subject to Cost Bearing (Tentative) (14 : 30~)
X+2 days	
X+3 days (Request day +2)	Buy-In Execution
X+4 days	Settlement related to Buy-In Execution

- As for "Priority in Securities Receipt among Receiving Participant by Issue" for which JSCC sets priority in each securities receipt for each participant, **with the lowest priority newly introduced, it is assumed that clearing participant voluntarily notify the issue and quantity acceptable for such lowest priority** as follows.
- As Fail_Receiver shall be **assigned to the receiving Participants in order from the receiving Participants of the lowest priority**, consequently, fail of such notified issue shall be assigned firstly to the notifying participants.

○ Priority in Securities Receipt among Receiving Participant by Issue

1 st Priority Basic attribution	2 nd Priority Buy-In Request	3 rd Priority Fail-affected date	Priority in Securities Receipt	Remark
Group with highest priority • Quantity relating to Buy-In Request	Buy-In Request Day <Earlier group>	Fail-affected date <Earlier group>	1st	In case of same day, prioritize based on lottery result
		Fail-affected date	2nd	Same as above
	Buy-In Request Day <Later group>	Fail-affected date <Earlier group>	3rd	Same as above
		Fail-affected date	4th	Same as above
Group with priority • Fail_Receiver participant		Fail-affected date <Earlier group>	5th	Same as above
		Fail-affected date	6th	Same as above
Group with Subordination • Other Participants			7th	Prioritize based on lottery result
Most Subordinated Group (New) • Participant who notified voluntary subordination			8th	Voluntary notification of issue / quantity from clearing participant is assumed

Order of JSCC Receiving Stocks

Order of Fail Assignment

Guidance for Clearing Participants upon Occurrence of Delivery Failure on a Record Date (Draft)

Japan Securities Clearing Corporation

1. About this Guidance

This Guidance sets forth concepts that a delivering Cash Products Clearing Participant in the delivery failure (hereinafter referred to as “Fail_Deliverer Participant”) should refer to as a guidance in the rights adjustment process upon occurrence of a delivery failure in respect of Stocks, etc. on a Record Date¹ for the receiving Clearing Participant in the delivery failure (hereinafter referred to as “Fail_Receiver Participant”) pursuant to Article 5 of the Rules on Handling of the Case of Delivery Failure and Buy-in².

Because, as set forth in the said Rules, the rights adjustment shall eventually be a matter of individual arrangement between the Clearing Participants, Fail_Deliverer Participant is expected to be flexible in responding to Fail_Receiver Participant’s request. However, in the absence of specific request from Fail_Receiver Participant according to individual case, Fail_Deliverer Participant is required to adjust rights in accordance with this Guidance to the extent possible.

¹ In this Guidance, a “Record Date” means any date specified in Article 64, Paragraph 3, Items (1) to (3) of the Business Rules (or, if such date falls on a non-business day, immediately preceding business day).

² This Guidance does not cover any event that is to be the cause of restriction on the delivery failure (prohibition of causing delivery failure) (reverse split of stocks, and de-listing event resulting from merger, stock exchange, stock transfer, acquisition of all stocks and request for sale of stocks, etc.).

2. Principles to be Followed by Fail_Deliverer Participant upon Delivery Failure on Record Date

When a Fail_Deliverer Participant caused a delivery failure on a Record Date, it shall take measures in the order set forth below promptly after the occurrence of the failure, and make efforts so that the Fail_Receiver Participant can acquire/exercise the rights it is originally supposed to retain without suffering from disbenefit, such as additional operational burden or economic loss.

- (1) On the date of occurrence of the delivery failure, the Fail_Deliverer Participant shall make efforts to have Fail_Receiver Participant or its client directly acquire the rights under the Book-Entry Transfer System for Shares, etc.³ through delivery of the securities subject to the delivery failure to the Fail_Receiver Participant by using Non-Exchange Transaction Deliveries under the Book-Entry Transfer System for Shares, etc.;
- (2) If (1) is not possible, on the date of occurrence of the delivery failure, the Fail_Deliverer Participant shall make efforts to have Fail_Receiver Participant or its client directly acquire the rights under the Book-Entry Transfer System for Shares, etc. through delivery of the securities subject to the delivery failure to the Fail_Receiver Participant by using, upon coordination with the Fail_Receiver Participant, Additional Transfer under the Book-Entry Transfer System for Shares, etc.;
- (3) If neither (1) nor (2) is possible, promptly on or after the date of occurrence of the delivery failure, the Fail_Deliverer Participant shall adjust the rights with the Fail_Receiver Participant according to the method specified in Section 3 of this Guidance.

³ Even in the case where the securities subject to the delivery failure is the issues subject to the Depository and Book-Entry Transfer System for Foreign Stock Certificates, etc., it shall be treated according to the statement in this Guidance.

3. Guidance on Ex-post Facto Processing of Rights Adjustment related to Delivery Failure on Record Date between Fail_Deliverer Participant and Fail_Receiver Participant

When it is not possible to cause the Fail_Receiver Participant directly acquire the rights under the Book-Entry Transfer System for Shares, etc. as specified in (1) and (2) of Section 2 above, and the Fail_Deliverer Participant processes rights adjustment related to the delivery failure occurred on the Record Date with Fail_Receiver Participant ex-post facto, the Fail_Deliverer Participant is required to adjust rights according to the method outlined below by each corporation action. Cash, etc. needed for the process is required to be borne by the Fail_Deliverer Participant in principle, unless Fail_Receiver Participant agrees otherwise.

(1) Dividends (Dividend of Surplus)/Distributions

On or after the date of commencement of the dividend⁴ payment by the issuer, the Fail_Deliverer Participant shall pay the amount considered sufficient to avoid the Fail_Receiver Participant from incurring any loss of dividends which should have otherwise been received by the Fail_Receiver Participant (capped at “number of stocks subject to the delivery failure x dividend per share”) to the account, etc. designated by the Fail_Receiver Participant without delay.

(2) Shareholder Benefits

When the Fail_Receiver Participant desires to receive/deliver shareholder benefits, the Fail_Deliverer Participant shall confirm with the Fail_Receiver Participant the type and quantity of the subject of the shareholder benefit which the Fail_Receiver Participant or its client would have received had the delivery failure not occurred, and shall make efforts to pay/receive the subject of the shareholder benefits or cash equivalent thereof without delay in any

⁴ Including distributions on the securities, such as beneficial interests in the investment trust or investment securities.

of the methods specified below:

- (i) The Fail_Deliverer Participant shall deliver the item of the shareholder benefits itself in the manner and at the place designated by the Fail_Receiver Participant by alternatively procuring the subject of the shareholder benefits from another shareholder or market, or by other method;
- (ii) When the measure described in (i) above is difficult and, based on an agreement between the Fail_Deliverer Participant and the Fail_Receiver Participant, the Fail_Receiver Participant is to alternatively procure the subject of the shareholder benefits on a voluntary basis, the Fail_Deliverer Participant shall pay the amount equivalent to the actual cost incurred by the Fail_Receiver Participant in such alternative procurement and delivery to its client to the account, etc. designated by the Fail_Receiver Participant.
- (iii) When it is difficult to procure the same item due to limitation on the aggregate number of the subject of the shareholder benefits, or difficulty in procurement at market or the like because of its nature as commemorative gift or shareholders-only gift, the Fail_Deliverer Participant shall, based on consent of the Fail_Receiver Participant, clear the rights with money or goods that can be an alternative for such subject of shareholders benefit.

(3) Stock Split⁵

As to the number of shares which should have been newly allocated to the Fail_Receiver Participant or its client as a result of the stock split had the delivery failure not occurred (it shall be the number of shares calculated as those supposed to be allocated against the number of shares subject to the delivery failure, truncating fraction less than 1 share), the Fail_Deliverer Participant shall deliver the relevant securities to the Fail_Receiver Participant via Non-Exchange Transaction Deliveries under the Book-Entry Transfer System for Shares, etc. promptly on or after the effective date of the relevant stock split.

As to the fraction less than 1 share truncated in the calculation process, if the issuer supposed to deliver money through distribution of consideration of disposition of the fractional shares, the Fail_Deliverer Participant shall confirm the amount of money to be delivered had the delivery failure not occurred, and pay the full amount thereof to the account, etc. designated by the Fail_Receiver Participant.

⁵ Including split of beneficial interest of investment trusts and division of investment unit of investment securities.

(4) Allotment of Shares without Consideration

As to the number of shares which should have been newly allocated to the Fail_Receiver Participant or its client as a result of the allotment of shares without consideration had the delivery failure not occurred (it shall be the number of shares calculated as those supposed to be allocated against the number of shares subject to the delivery failure, truncating fraction less than 1 share), the Fail_Deliverer Participant shall deliver the relevant securities to the Fail_Receiver Participant via Non-Exchange Transaction Deliveries under the Book-Entry Transfer System for Shares, etc. promptly on or after the effective date of the allotment of shares without consideration.

As to the fraction less than 1 share truncated in the calculation process, if the issuer supposed to deliver money through distribution of consideration of disposition of the fractional shares, the Fail_Deliverer Participant shall confirm the amount of money to be delivered had the delivery failure not occurred, and pay the full amount thereof to the account, etc. designated by the Fail_Receiver Participant.

(5) Allotment of Stock Acquisition Rights without Contribution⁶

In response to the request of the Fail_Receiver Participant, the Fail_Deliverer Participant shall deliver the stock acquisition rights which should have been newly allocated to the Fail_Receiver Participant or its client as a result of the allotment of stock acquisition rights without contribution had the delivery failure not occurred to the Fail_Receiver Participant via Non-Exchange Transaction Deliveries under the Book-Entry Transfer System for Shares, etc. promptly after the issuance of such stock acquisition rights (allotment)⁷, or, in response to the request of the Fail_Receiver Participant, provide the Fail_Receiver Participant with the opportunity of exchanging the stock and funds (amount equivalent to paid-in capital) on the same condition as a partial or full exercise of the stock acquisition rights which should have been allocated to the Fail_Receiver Participant or its client had the delivery failure not occurred.

⁶ Including allotment of options to acquire new investment units without contribution.

⁷ In case of allotment of stock acquisition rights without contribution for which the stock acquisition rights is eligible for transfer at Japan Securities Depository Center, Inc.

(6) Capital Increase through Shareholders Allocation⁸

When the Fail_Receiver Participant has expressed its intention to accept shareholders allocation for capital increase by the closing date for the shareholders allocation, the Fail_Deliverer Participant shall, in response to the request of the Fail_Receiver Participant, provide the Fail_Receiver Participant with the opportunity of exchanging the shares and funds (amount equivalent to paid-in capital) on the same condition as the case assuming application of the part or all of the pre-emptive rights which Fail_Receiver Participant or its client should have had as a result of the shareholders allocation had the delivery failure not occurred.

(7) Other Rights

In respect of any right falling under none of (1) through (6) above, the Fail_Deliverer Participant shall decide on the treatment upon consultation and arrangement with the Fail_Receiver Participant.

4. Other

The establishment, revision and abolition of this Guidance shall be determined by Japan Securities Clearing Corporation upon consultation with the Listed Products Management Committee established by Japan Securities Clearing Corporation.

End of Document

⁸ Including allotment with contribution to the investors of the investment securities.