

Revision of Liquid Fund Acquiring Method in JGB OTC Transaction Clearing Business

April 30, 2014

Japan Securities Clearing Corporation

| Item | Description | Remarks |
|---|---|---|
| I. Purpose | <ul style="list-style-type: none"> • When a Clearing Participant fails or is deemed by JSCC to be likely to fail to perform its obligations against JSCC, JSCC needs to procure liquid funds in order to perform its obligations against Clearing Participants other than such failed Clearing Participant (hereinafter referred to as “Failed Clearing Participant”). • In order to improve effectiveness of acquisition of liquid funds, JSCC will revise funding method and other procedures. | |
| II. Outline | | |
| 1. Introduction of Transaction with Haircut in Obligated Fund Provision | <ul style="list-style-type: none"> • Under current structure, in acquiring liquid funds, JSCC may acquire required funds through Cash-secured Bond Lending Transactions with Clearing Participants, which must become counterparty to such Cash-secured Bond Lending Transactions (such funding method is hereinafter referred to as “Obligated Fund Provision”). • Under Obligated Fund Provision, each Clearing Participant has an option to use Cash-secured Bond Lending Transaction to which a certain haircut is applied (hereinafter referred to as “Transaction with Haircut”). | <ul style="list-style-type: none"> • Use of Transaction with Haircut is an option to a Clearing Participant. • Level of haircut to apply will be similar to the level under Complementary Lending Facility (<i>‘Lombard-type’ lending facility</i>) of Bank of Japan. |
| 2. Procuring Funds at the time of Settlement Default | When a Clearing Participant fails or is deemed by JSCC to be likely to fail to perform its obligations against JSCC, JSCC shall perform its obligations to Clearing Participants with the | <ul style="list-style-type: none"> • Current Use Priority is as follows: (1st Priority) Any of the following: |

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| 3. Allocation Method in Obligated Fund Provision | <p>money acquired by below listed methods according to the priority in use described below:</p> <p>(1st Priority) Any of the following:</p> <ul style="list-style-type: none"> • Borrowing funds from a Clearing Participant or any other person; • Cash-secured Bond Lending Transactions to which a Clearing Participant or any other person is a counterparty; and • Cash-secured Bond Lending Transactions to which a Clearing Participant or any other person who, upon JSCC's request, entered into a contract in advance in which the relevant Clearing Participant or such other person agreed to become the counterparty to such Cash-secured Bond Lending Transactions is the counterparty <p>(2nd Priority) Obligated Fund Provision</p> <p>(3rd Priority) Initial Margin deposited in cash</p> <p>• JSCC will allocate the amount of funds that need to be acquired through Obligated Fund Provision to Clearing Participants other than Failed Clearing Participant according to each Clearing Participant's Initial Margin requirement. Detailed allocation method is outlined below.</p> | <ul style="list-style-type: none"> - Initial Margin deposited in Cash - Borrowing funds from a Clearing Participant or any other person; - Cash-secured Bond Lending Transactions to which a Clearing Participant or any other person is a counterparty; and - Cash-secured Bond Lending Transactions to which a Clearing Participant or any other person who, upon JSCC's request, entered into a contract in advance in which the relevant Clearing Participant or such other person agreed to become the counterparty to such Cash-secured Bond Lending Transactions is the counterparty <p>(2nd Priority) Obligated Fund Provision</p> <ul style="list-style-type: none"> • Under current structure, the allocation of funds to be acquired through Obligated Fund Provision from each Clearing Participant is to be determined according to the ratio of amount of original |

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| (1) Clearing Participants Required to Provide Funds | <ul style="list-style-type: none"> • In principle, all Clearing Participants other than Failed Clearing Participant are required to provide funds. | <p>transaction of each Clearing Participant with Failed Participant.</p> <ul style="list-style-type: none"> • If the amount of funds needed to be acquired is less than the amount obtained as a product of the number of Clearing Participants and JPY5bil, only a part of Clearing Participants are required to provide funds. |
| (2) Allocation of Required Funds to each Clearing Participant a. Calculation of Base Contribution | <ul style="list-style-type: none"> • To determine allocation to each Participant of funds required to be acquired, JSCC will calculate an amount of base contribution from each Clearing Participant (“Base Contribution”). • The Base Contribution shall be obtained by multiplying the average of Required Initial Margin Base Amount for past 120 Business Day period (hereinafter referred to as “Average Required IM Base Amount”) for a Clearing Participant by a Base Contribution Factor. • Base Contribution Factor shall be the multiplying factor by which Base Contribution is determined such that allocation to top 20 Clearing Participants in terms of allocation priority will become even, if critical funding amount were allocated to each Clearing Participant up | <ul style="list-style-type: none"> • If the amount so obtained is zero, then Base Contribution shall be zero, if more than zero and not more than JPY5bil, then JPY5bil, and if more than JPY5bil, then the amount rounded downwards by each JPY5bil. • Critical funding amount shall be the amount determined by JSCC based on the amount equivalent to 97.72% of the 3 day |

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| <p>b. Required Funds Allocation Method</p> <p>(a) If Required Funds do not exceed aggregate Base Contributions from all Clearing Participants</p> <p>(b) If Required Funds exceed aggregate Base Contributions from all Clearing Participants</p> | <p>to its Base Contribution through the method set forth b. below.</p> <p>• If funds required to be acquired through Obligated Fund Provision (hereinafter “Required Funds”) do not exceed aggregate Base Contributions from all Clearing Participants, JSCC will allocate Required Funds to each Clearing Participants in multiples of JP5bil capped at respective Base Contribution in the order of Average Required IM Base Amount from Clearing Participant whose Average Required IM Base Amount is the largest.</p> <p>• If Required Funds exceed aggregate Base Contributions of Clearing Participants, then JSCC shall allocate Required Funds in multiples of JPY0.1bil on pro-rata basis according to Base Contribution from each Clearing Participant.</p> | <p>largest value of required fund amount upon Clearing Participant default (greater of non-consolidated and consolidated value for the Clearing Participant whose fund requirement is the largest, and trust account will be calculated separately) during latest 250 business day period minus the amount that is expected to be acquired through other methods.</p> <p>• See Annex entitled “Illustration of Required Funds Allocation” for detailed allocation method.</p> <p>• If Required Funds contain fraction less than multiples of JPY5bil, such amount shall be allocated according to the priority of allocation.</p> |

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| c. Revision of Base Contribution and Allocation Priority III. Implementation Timing | <ul style="list-style-type: none"> • Base Contribution and allocation priority shall be reviewed semi-annually. • If the number of Clearing Participants increases or decreases as a result of acquisition or renunciation of Clearing Qualification, Base Contribution and allocation priority shall be revised after a certain period of time stipulated by JSCC. • This revision shall be implemented from June 2, 2014. | |

End of Document

Illustration of Required Funds Allocation

| | | |
|--------|---|---|
| Case 1 | When Required Funds do not exceed sum of minimum contribution by Clearing Participant (JPY5bil) | <ul style="list-style-type: none"> • Fund requirement will be allocated in multiples of JPY5bil in the order of Average Required IM Base Amount from the Clearing Participant with the largest Average Required IM Base Amount. Therefore, only 10 Clearing Participants will be required to provide funds. • Fraction less than JPY5bil will be allocated to Clearing Participant K. |
| Case 2 | When allocation to some Clearing Participants ranked lower in the allocation priority reaches Base Contribution | <ul style="list-style-type: none"> • No additional allocation will be made to Clearing Participants whose allocation reaches Base Contribution (Participants h to j). • Shortage shall be allocated to Clearing Participants with higher allocation priority (Participants A to H). |
| Case 3 | When “Critical Funding Amount” equals to “Required Funds” | <ul style="list-style-type: none"> • Funding of Critical Funding Amount (JPY2,040bil) can be achieved through even allocation of JPY75bil to 20 Clearing Participants. |
| Case 4 | When “Required Funds” equal to “Aggregate Base Contributions of All Clearing Participants” | <ul style="list-style-type: none"> • Each Clearing Participant gets allocation equal to its Base Contribution. |
| Case 5 | When “Required Funds” are more than “Aggregate Base Contributions of All Clearing Participants” | <ul style="list-style-type: none"> • If Required Funds exceed the amount in Case 4 (JPY3,740bil), the amount obtained by prorating Required Funds according to Base Contribution ratio in multiples of JPY0.1bil shall be allocated to each Clearing Participant. |

(See next page for specific allocation)

Base Contribution Factor 5.1

Allocation

(in 100 mil yen)

| | Participant | Average Required IM Base Amount | Average Required IM Base Amount*5.1 | Base Contribution | Ratio | Case 1 | Case 2 | Case 3 | Case 4 | Case 5 |
|----|-------------|------------------------------------|--|-------------------|--------|--------|--------|--------|--------|--------|
| 1 | A | 1,048 | 5,347 | 5,300 | 14.17% | 50 | 150 | 750 | 5,300 | 5,668 |
| 2 | B | 764 | 3,899 | 3,850 | 10.29% | 50 | 150 | 750 | 3,850 | 4,118 |
| 3 | C | 546 | 2,782 | 2,750 | 7.35% | 50 | 150 | 750 | 2,750 | 2,941 |
| 4 | D | 386 | 1,970 | 1,950 | 5.21% | 50 | 150 | 750 | 1,950 | 2,086 |
| 5 | E | 353 | 1,800 | 1,800 | 4.81% | 50 | 150 | 750 | 1,800 | 1,925 |
| 6 | F | 296 | 1,510 | 1,500 | 4.01% | 50 | 150 | 750 | 1,500 | 1,604 |
| 7 | G | 288 | 1,467 | 1,450 | 3.88% | 50 | 150 | 750 | 1,450 | 1,551 |
| 8 | H | 287 | 1,462 | 1,450 | 3.88% | 50 | 140 | 750 | 1,450 | 1,551 |
| 9 | J | 262 | 1,338 | 1,300 | 3.48% | 50 | 100 | 750 | 1,300 | 1,390 |
| 10 | K | 261 | 1,330 | 1,300 | 3.48% | 49 | 100 | 750 | 1,300 | 1,390 |
| 11 | L | 244 | 1,243 | 1,200 | 3.21% | - | 100 | 750 | 1,200 | 1,283 |
| 12 | M | 238 | 1,214 | 1,200 | 3.21% | - | 100 | 750 | 1,200 | 1,283 |
| 13 | N | 230 | 1,174 | 1,150 | 3.07% | - | 100 | 750 | 1,150 | 1,230 |
| 14 | O | 203 | 1,033 | 1,000 | 2.67% | - | 100 | 750 | 1,000 | 1,070 |
| 15 | P | 196 | 1,000 | 1,000 | 2.67% | - | 100 | 750 | 1,000 | 1,070 |
| 16 | Q | 164 | 835 | 800 | 2.14% | - | 100 | 750 | 800 | 856 |
| 17 | R | 156 | 796 | 750 | 2.01% | - | 100 | 750 | 750 | 802 |
| 18 | S | 155 | 793 | 750 | 2.01% | - | 100 | 750 | 750 | 802 |
| 19 | T | 151 | 771 | 750 | 2.01% | - | 100 | 750 | 750 | 802 |
| 20 | U | 148 | 753 | 750 | 2.01% | - | 100 | 750 | 750 | 802 |
| 21 | V | 142 | 723 | 700 | 1.87% | - | 100 | 700 | 700 | 749 |
| 22 | W | 124 | 632 | 600 | 1.60% | - | 100 | 600 | 600 | 642 |
| 23 | X | 112 | 570 | 550 | 1.47% | - | 100 | 550 | 550 | 588 |
| 24 | Y | 99 | 507 | 500 | 1.34% | - | 100 | 500 | 500 | 535 |
| 25 | Z | 99 | 507 | 500 | 1.34% | - | 100 | 500 | 500 | 535 |
| 26 | a | 99 | 506 | 500 | 1.34% | - | 100 | 500 | 500 | 535 |
| 27 | b | 97 | 495 | 450 | 1.20% | - | 100 | 450 | 450 | 481 |
| 28 | c | 81 | 411 | 400 | 1.07% | - | 100 | 400 | 400 | 428 |
| 29 | d | 68 | 345 | 300 | 0.80% | - | 100 | 300 | 300 | 321 |
| 30 | e | 63 | 322 | 300 | 0.80% | - | 100 | 300 | 300 | 321 |
| 31 | f | 57 | 289 | 250 | 0.67% | - | 100 | 250 | 250 | 267 |
| 32 | g | 31 | 156 | 150 | 0.40% | - | 100 | 150 | 150 | 160 |
| 33 | h | 20 | 101 | 100 | 0.27% | - | 100 | 100 | 100 | 107 |
| 34 | i | 6 | 29 | 50 | 0.13% | - | 50 | 50 | 50 | 53 |
| 35 | j | 2 | 13 | 50 | 0.13% | - | 50 | 50 | 50 | 53 |