

Outline of Interest Rate Swaps Clearing (Draft)

March 1, 2012
Japan Securities Clearing Corporation

Item #	Description	Remarks
1. Eligible Trades for Clearing	<ul style="list-style-type: none"> • To be eligible for clearing, Interest Rate Swaps (IRS) trades must satisfy all of the following requirements: <ul style="list-style-type: none"> i Executed in accordance with Master Agreement and Definitions that are stipulated by the International Swaps and Derivatives Association, Inc. (hereinafter referred to as 'ISDA'). ii Affirmed by methods prescribed by Japan Securities Clearing Corporation (hereinafter referred to as 'JSCC'). iii Conducted between clearing participants of JSCC, and they agree to use the IRS clearing services provided by JSCC. iv Swap type of Fixed - Floating or Floating – Floating. v Floating Rate of JPY Libor published by British Bankers' Association. vi Floating Period of 3 months or 6 months. 	<ul style="list-style-type: none"> • The possible expansion of the range of the eligible products will be considered on an ongoing basis, based on the needs from clearing participants and the framework for risk management. • ISDA 2000 or 2006 Definitions. • Shall be a trade which is affirmed by MarkitWire provided by MarkitSERV at the outset. • Includes trades conducted based on the Brokerage for Clearing of securities, etc. • Will continue the consideration to extend the eligible Floating Rate to TIBOR published by Japanese Bankers Association as soon as possible. • Will continue the consideration to extend the eligible Floating Period (e.g., of 1 month) as soon as possible. • Either of Front Stub or Back Stub is available with Short or Long Stub.

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<p>2. Business Day</p> <p>3. Clearing Participant</p>	<p>vii Yen-dominated.</p> <p>viii Minimum Contract Term - the number of days from the start date through the end date - is 28 days or more.</p> <p>ix Minimum Contract Residual Term - the number of days from the date of the request for clearing through the end date - is more than or equal to 3 days but not exceeding 14,623 days..</p> <p>x The Notional Amount is more than or equal to JPY 1 but no more than JPY 10 Trillion.</p> <p>xi Day Count is on ACT/360 for Floating Rate, on a method stipulated by ISDA Definitions for Fixed Rate.</p> <p>xii Business Day Convention is either Following, Modified Following, or Preceding.</p> <p>xiii Financial Center for Payment is Tokyo.</p> <p>xiv Financial Center for Rate Fixing is London.</p> <p>xv Satisfies any other requirements prescribed by JSCC.</p> <ul style="list-style-type: none"> • Existing trades shall also be made eligible for clearing if they satisfy the above requirements. • JSCC Business Day shall be in accordance with business days in Japan. 	<ul style="list-style-type: none"> • In addition to Tokyo, London, New York, and/or TARGET(the Trans-European Automated Real-time Gross settlement Express Transfer System) can be added as Financial Center.

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	<p data-bbox="465 225 1406 783">ii Applicant Clearing Participant shall satisfy the financial criteria as set forth hereinafter and a stable capacity to earn profits shall be expected; provided, however, that in case Applicant Clearing Participant's parent company, etc. who satisfies the criteria of net capital and creditworthiness guarantees Applicant Clearing Participant, the criteria of net capital shall be no less than JPY 50 Billion and the criteria of creditworthiness shall not apply. In the case where the relevant parent company, etc. also satisfies the criteria of Capital-to-Risk ratio (capital adequacy ratio, solvency margin ratio) in addition to the criteria of net capital and creditworthiness, the criteria of net capital shall be no less than JPY 50 Billion and the criteria of creditworthiness and Capital-to-Risk ratio (capital adequacy ratio, solvency margin ratio) shall not apply.</p> <p data-bbox="495 900 1160 927">[Criteria for Financial Instruments Business Operators]</p> <table border="1" data-bbox="562 938 1384 1233"> <thead> <tr> <th data-bbox="562 938 943 986">Item Criteria</th> <th data-bbox="943 938 1384 986">Item Criteria</th> </tr> </thead> <tbody> <tr> <td data-bbox="562 986 943 1034">Net Capital (Note 1)</td> <td data-bbox="943 986 1384 1034">No less than JPY 100 Billion</td> </tr> <tr> <td data-bbox="562 1034 943 1182">Net Capital Capital-to-Risk ratio (Notes 2 and 3)</td> <td data-bbox="943 1034 1384 1182">200%+</td> </tr> <tr> <td data-bbox="562 1182 943 1233">Creditworthiness</td> <td data-bbox="943 1182 1384 1233">A certain level of creditworthiness</td> </tr> </tbody> </table> <p data-bbox="495 1246 1048 1273">[Criteria for Registered Financial Institutions]</p>	Item Criteria	Item Criteria	Net Capital (Note 1)	No less than JPY 100 Billion	Net Capital Capital-to-Risk ratio (Notes 2 and 3)	200%+	Creditworthiness	A certain level of creditworthiness	<p data-bbox="1491 177 1906 204">information etc.) in a timely manner.</p> <ul data-bbox="1440 225 2145 1267" style="list-style-type: none"> <li data-bbox="1440 225 2145 448">• The criteria of creditworthiness will be comprehensively evaluated with one of Applicant's ratings being higher than the equivalent of A (its parent company's rating being higher than the equivalent of A+ in case Applicant is not rated) as one of the measuring factors. <li data-bbox="1440 469 2145 783">• Ratings shall be long-term debt ratings (excluding so-called 'unsolicited ratings) as assigned by one of the following credit rating agencies: Rating & Investment Information, Inc., Japan Credit Rating Agency, Ltd., Moody's Investors Services, Inc., Moody's SF Japan, Standard & Poor's, and Fitch Ratings (including those agencies' specified affiliates). <li data-bbox="1440 804 2145 975">• "Parent company" refers to the company that dominates decisions on another company's corporate financial as well as business policies and includes the parent company of such companies. <li data-bbox="1440 995 2145 1267">• The guarantee provided by the parent company shall cover the participant's entire obligation to JSCC related to IRS Clearing Qualification and losses incurred by JSCC in association with default Qualification and losses incurred by JSCC in association with default procedures for Clearing Participant who receives such guarantee, and
Item Criteria	Item Criteria									
Net Capital (Note 1)	No less than JPY 100 Billion									
Net Capital Capital-to-Risk ratio (Notes 2 and 3)	200%+									
Creditworthiness	A certain level of creditworthiness									

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	Item Criteria	Item Criteria	<p>a credit line shall not be set for such guarantee.</p> <ul style="list-style-type: none"> In calculating the net capital criteria related to Parent Company that provides guarantee, the net capital noted in the left column shall be multiplied by the number of participants guaranteed by Parent Company (The guaranteeing Parent Company will be added if it is a Clearing Participant). The "parent company etc." shall be the parent company or the parent company's subsidiary (refers to the company whose decision of corporate financial as well as business policies is controlled by another company and includes its subsidiary). 'Cases where JSCC deems it necessary after having considered the creditworthiness of a Clearing Participant' noted in (Note 3) will be comprehensively evaluated with the lowest of Clearing Participant's ratings being lower than the equivalent of A (its parent company's lowest rating being lower than the equivalent of A+ in case Clearing Participant is not rated) as one of the measuring factors.
	Net Capital (Note 1)	No less than JPY 100 Billion	
	Capital Adequacy ratio (Notes 3, 4, and 5)	International: Over 8% Domestic: Over 4%	
	Solvency Margin ratio (Notes 3 and 6)	400%+	
	Creditworthiness	A certain level of creditworthiness	
	<p>(Note 1) In the case of Financial Instruments Business Operators, the amount of net capital in Capital-to-Risk ratio, and in the case of Registered Financial Institutions, the amount of net capital under regulations regarding capital adequacy ratio.</p> <p>(Note 2) In the case of falling under so called "downstream regulation," non-consolidated Capital-to-Risk ratio, and consolidated Capital-to-Risk ratio.</p> <p>(Note 3) In cases where JSCC deems it necessary after having considered the creditworthiness of a Clearing Participant, 1.25 times value shall be applied as the standard value.</p> <p>(Note 4) Applies to Registered Financial Institutions that are not insurance companies.</p> <p>(Note 5) International criteria apply to financial institutions that have business locations overseas. Domestic criteria apply to financial institutions that have no business locations overseas.</p> <p>(Note 6) Applies to insurance companies.</p>		

Item #	Description	Remarks
(3). Obligation of IRS Clearing Participants	<ul style="list-style-type: none"> • An applicant company that has an appropriate management and business execution structure. One of the requirements for the business-execution structure is to be able to participate in the procedures for the settlement of a defaulting Clearing Participant's portfolio. In order to support this, a participant or a company group that includes the participant should retain its IRS portfolio of JPY 10 Trillion or more. In the case where the amount of IRS portfolio is calculated for a company group that includes the participant, JPY 10 Trillion will be multiplied by the number of clearing participant(s) in the company group. • Requirements for maintaining IRS Clearing Qualifications shall be the same as the requirements for obtaining qualification, as noted above; provided, however, that with regard to the criteria of the creditworthiness, in cases where JSCC deems it necessary after having considered the creditworthiness of a Clearing Participant, it shall take measures of additional Initial Margin and renunciation of the IRS Clearing Qualification depending on the creditworthiness of such Clearing Participant. • Reporting obligations as per followings are applied to the Clearing Participants: <ul style="list-style-type: none"> - in case of suspension of business, liquidation of the organization - in case of insolvency, unable to meet with the conditions for maintaining the Clearing Qualification 	<ul style="list-style-type: none"> • Allows Applicant to have business operation in place which allows it to participate in the procedure for settlement of the defaulting clearing participant's portfolio; in this case, the defaulting clearing participant should have defaulted due to the necessary cooperative relationship developed through Trader etc. abroad in the group with the trading functionality. • See Annex 1, for more information on the concrete standard of additional Initial Margin as well as renunciation of clearing qualification after having considered the creditworthiness of a Clearing Participant.

Item #	Description	Remarks
(4). Renunciation of Clearing Qualification	<ul style="list-style-type: none"> - In case of preparing the financial statement etc. • In case of default by another clearing participant, clearing participants bear obligation to participate in the default management procedure for disposal of the defaulting clearing participant's portfolio. • When a clearing participant intends to renounce its clearing qualification, the clearing participant shall submit an application for renunciation of its clearing qualification to JSCC. • Renunciation of clearing qualification shall take effect after 30 calendar days since the day of application or at the close of Clearing Participant's position, whichever later. • Clearing Participant whose qualification has been renounced shall perform all obligations it owes to JSCC by the day JSCC specifies after the IRS Clearing Qualification renunciation. 	<ul style="list-style-type: none"> • See Item #17, for more information on procedure for settlement of portfolio. • JSCC will publish such application for renunciation. • See Reference 1, for more information on when the qualification renunciation will take effect. • See the remarks column in Item#16.(7) for more information on handling of the Clearing Participant's default that occurred after an application for renunciation of qualification is submitted. • In case the amount of special clearing charge etc. is not yet determined in the loss compensation scheme (See Item #16), the approximate amount shall be deposited to JSCC and the difference be paid/received after the relevant amount has been determined). • If a Clearing Participant discharges all obligations it owes to JSCC, JSCC shall return the Clearing Fund without delay.

Item #	Description	Remarks
(5). Measures etc., against Clearing Participants	<ul style="list-style-type: none"> • JSCC shall be able to take the following measures against Clearing Participants. <ul style="list-style-type: none"> i Suspension of Bearing Obligations, renunciation of Clearing Qualification due to a violation of regulations, etc. ii Request for a report when a Clearing Participant has excessive positions, take measures including increasing the collateral amount, instruct to improve positions, and suspend Bearing Obligations. iii Regulatory measures related to collateral (reduction of haircut for substitute securities) iv Request for documents or inspection, etc. when deemed necessary for clearing operations 	<ul style="list-style-type: none"> • In cases where JSCC takes the measure I., JSCC shall provide notices or make announcements to other clearing participants. • In cases where unsettled contracts could not be resolved within a certain period in the Clearing Qualification renunciation procedures, such position shall be put up for auction.
4. Clearing Brokerage	<ul style="list-style-type: none"> • Clearing Brokerage will be introduced in order to allow Clearing Participant to utilize JSCC in a trade handled by their client. • Trades eligible for clearing brokerage shall also be IRS trades eligible for Clearing Brokerage 	<ul style="list-style-type: none"> • By utilizing Clearing Brokerage, an overseas booking trade can be cleared as a client trade by JSCC.

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(1). Scope of Clearing Entruster	<ul style="list-style-type: none"> At the outset of the clearing service, the scope of clients who can entrust clearing brokerage - Clearing Entruster - will be limited to companies that are part of the same corporate group as the corporate group the clearing participant belongs to (Affiliate Clearing). 	
(2). Requirements for Clearing Entruster	<ul style="list-style-type: none"> Shall follow the procedure in (3). below. Shall be a user of MarkitWire. 	
(3). Basic Process Related to Clearing Brokerage	<ul style="list-style-type: none"> Whenever Clearing Participant tries to accept Clearing Brokerage on trust, Clearing Participant shall preliminarily conclude Clearing Trustee Agreement, stipulated by JSCC, with their Client, the Entruster. Whenever Clearing Participant tries to conclude Clearing Trustee Agreement, Clearing Participant shall report to JSCC the content of the Agreement and other necessary matters. Clearing Entruster shall submit to JSCC a written pledge through Clearing Participant who concluded Clearing Trustee Agreement (Trustee Participant), stating that Clearing Participant shall comply with the rules of JSCC. 	<ul style="list-style-type: none"> JSCC will stipulate the forms of documentation for the Clearing Trustee Agreement. JSCC will stipulate the form of documentation for the written pledge.
(4). Separate Management of Clients' Position	<ul style="list-style-type: none"> JSCC shall manage positions related to Clearing Participant's trades, separating Client's Clearing Brokerage trades (hereinafter referred to as 'Client trade') from Clearing Participant's Proprietary trades (hereinafter referred to as 'Proprietary trade'). 	<ul style="list-style-type: none"> Positions will be separately managed in Clearing Participant's account. See Item #5.

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(5). Direct Deposit of IM Related to Client's Trades	<ul style="list-style-type: none"> • The client shall deposit IM to Clearing Participant to whom Clearing Entruster has entrusted for Clearing Brokerage. Clearing Participant shall then deposit the whole amount of IM deposited by the client to JSCC as a proxy to the relevant client (Direct Deposit). • The amount of IM Client is to deposit shall be equal to/more than the requirement calculated by JSCC according to the relevant client's position. • JSCC shall manage IM related to Clearing Participant's Client trades separately from IM related to Clearing Participant's Proprietary trades. 	<ul style="list-style-type: none"> • Will establish the same direct depository scheme as the Exchange Traded Derivatives products as well as CDS trades. • The requirement for IM related to a Client trade shall be calculated in the same manner as a Proprietary trade.
(6). Replacement Deposits of IM Related to Clients' Trades	<ul style="list-style-type: none"> • Apart from the 'Direct Deposit' of IM, Clearing Participant will be able to have Client deposit IM for clearing brokerage, with the consent of the relevant Client. • In the case where Client deposited IM for clearing brokerage to Clearing Participant, Clearing Participant must deposit as IM the amount equal to or more than IM for clearing brokerage deposited by the relevant Client from their own money to JSCC (Replacement Deposit). • Clearing Participant must manage the situation of IM for clearing brokerage deposited by Client per client. 	<ul style="list-style-type: none"> • The range of the substitute securities of IM for clearing brokerage shall be the same as IM, etc. (JGB or US Treasuries) • The IM for clearing brokerage deposited to the Clearing Participants shall be stored under the responsibility of the relevant Clearing Participant.
(7). Claim for Refund of Initial Margin	<ul style="list-style-type: none"> • The following parties shall have the claim of refund of IM that was deposited to JSCC by Client in relation to Clearing Participant's Client trade on the following parts, with limits of the sum of IM for Direct Deposit of and IM for clearing brokerage out of the amount that was deposited as replacement with IM for 	

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(8) Receipt and Payment of VM related to Clients' Trade	<p>clearing brokerage to JSCC (hereinafter referred to as 'Total Deposit by Client') :</p> <p>i Client The deduction of the amount equivalent to the unfulfilled obligation the relevant Client owes to Clearing Participant from Total Deposit by Client related to the relevant Client</p> <p>ii Clearing Participant The deduction of i. above and the amount equivalent to the obligation unfulfilled by Clearing Participant and borne to JSCC related to the relevant Client's Client trade from Total Deposit by Client.</p> <ul style="list-style-type: none"> The claim for refund of IM Client has shall be exercised by Clearing Participant as a proxy to the relevant Client. VM related to the client trade, interest for VM Coupon, and Up-front fees will be paid and received between clients and Clearing Participants. 	
(9) Intraday-Margin related to the Clients' Trades	<ul style="list-style-type: none"> The client shall deposit Intraday Margin related to the clients' trades as IM or IM for clearing brokerage to the relevant Clearing Participant. 	<ul style="list-style-type: none"> The required amount for Intraday-Margin related to the client's trade shall be calculated in the same way as the proprietary trades.
5. Account Concept	<ul style="list-style-type: none"> Clearing Participant will have an account in JSCC for recording IRS trades of which Clearing Participant bore obligation (hereinafter referred to as 'Clearing Participant Account'). 	

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<p>6. Bearing Obligations</p> <p>(1). Application for Bearing Obligations</p> <p>(2). Process for Obligation Bearing</p>	<ul style="list-style-type: none"> • Clearing Participant Account is consisted of an account for recording Clearing Participant's Proprietary trades (hereinafter referred to as 'Proprietary account') and account for recording Client (Clearing Entruster) trades per Client (hereinafter referred to as 'Client account'). • Requirement for collateral such as IM, Intra-Day Margin, and Variation Margin (hereinafter referred to as 'VM') will be calculated per Proprietary/Client account. • Clearing Participant will report in advance to JSCC the information regarding Clearing Participant accounts. <ul style="list-style-type: none"> • Application for obligation bearing will be made by registering information related to the application for obligation bearing on MarkitWire. • Each of both parties of the trade of which they try to make an application for obligation bearing will make an application for obligation bearing. <ul style="list-style-type: none"> • JSCC will process obligation bearing as noted in I. and II. below: 	<ul style="list-style-type: none"> • Client account will be established per Client. • For both a Proprietary account and a Client account, it will be allowed to separate the relevant account into several pieces (hereinafter referred to as 'Separate account'). • Also, in the case of Separate account, IM will be calculated by summing up positions for each Proprietary/Client account. <ul style="list-style-type: none"> • Register "Send for Clearing (JSCC)" on MarkitWire. <ul style="list-style-type: none"> • Obligation bearing allows a new trade to be established between both parties of the trade eligible for obligation bearing, Clearing Participant and JSCC; conditional upon this, the trade eligible for obligation bearing between the relevant clearing participants will be terminated by

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I. Process for Obligation Bearing on the Day	<ul style="list-style-type: none"> • JSCC will bear obligation for the trade where an application for obligation bearing was made between 16:00 on the previous business day and noon on the day of obligation bearing, if the fact that all the following requirements are satisfied has been confirmed: <ul style="list-style-type: none"> i Satisfies all the requirements for a trade eligible for clearing. ii The day of obligation bearing or the following business day does neither fall upon the interest date nor on the up-front settlement date. iii All the clearing participants have resolved any shortage of collateral following the Intra-Day Margin. • JSCC will confirm by 15:30 that all the above requirements are satisfied. In case no confirmation can be made that those requirements are satisfied as of 15:30, obligation bearing will not be handled on the day. 	<p>consent.</p> <ul style="list-style-type: none"> • If any trade is deemed that it carries an extremely huge risk of obligation bearing anew, JSCC will be able to choose not to bear obligation of the relevant trade. • The obligation bearing procedures will be processed twice in a day. • Backloading trades (trades that elapsed 10 business days or longer as of the date on which JSCC received the application for obligation bearing) are not eligible for obligation bearing on the day.
II. Process for Obligation Bearing on the Following Day	<ul style="list-style-type: none"> • JSCC will bear obligation for the trade an application for obligation bearing was made between noon and 16:00 on the day of obligation bearing, if the fact that all the following requirements are satisfied has been confirmed: <ul style="list-style-type: none"> i Satisfies all the requirements for a trade eligible for clearing. ii The following business day or the business day after does neither fall upon 	<ul style="list-style-type: none"> • Even in the case noted in the left column, obligation bearing can be tentatively handled on the day, if JSCC deems it appropriate. • Backloading trades of which application for obligation bearing has been made until 16:00, irrespective of the timing of the application for obligation bearing as noted in the left column, will become eligible for obligation bearing on the following day.

Item #	Description	Remarks
<p>7. Initial Margin</p> <p>(1). Calculation Methodology</p> <p>I. Basic Concept</p> <p>II. Calculation Methodology</p>	<p>the interest date nor on the up-front settlement date.</p> <p>iii All the clearing participants, on the following business day, have resolved any shortage of collateral following the end of day IM calculation, and also completed deposit of required VM.</p> <ul style="list-style-type: none"> JSCC will confirm by noon on the following business day that all the above requirements are satisfied. In case no confirmation can be made that those requirements are satisfied as of noon on the following day, obligation bearing including the relevant trade will not be handled on the following day. <ul style="list-style-type: none"> The required amount of Initial Margin (hereinafter referred to as 'IM') shall be the expected amount of loss arising from the change in yield curves, in a case of a clearing participant's default, until the completion of the default management process of the relevant participant's position. The requirement for IM shall be the amount that will cover the maximum loss for the change in net present value (hereinafter referred to as 'NPV') calculated by varying the current day's market data using scenarios composed for each IRS clearing participant's position (including trades subject for obligation bearing) 	<ul style="list-style-type: none"> Even in the case noted in the left column, obligation bearing can be tentatively handled on the following day, if JSCC deems it appropriate. JSCC to calculate and notify Clearing Participants of IM. Clearing Participant shall deposit the sum of the required amount of IM both for proprietary and each client (affiliate) portfolios. In order to reflect the level of volatility in the latest market on the change in market data, the data will be adjusted over the reference period using the method of EWMA (Exponentially Weighted Moving Average) (See

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(2). Yield Curve to Be Used in Calculation	<p>as of 16:00 on each business day based on market data over the 5 days (Time Horizon) in the past 1,250 days (reference period).</p> <ul style="list-style-type: none"> Will use the yield curve JSCC calculated as of 15:02. 	<p>Annex 2).</p> <ul style="list-style-type: none"> Same as the yield curve used to calculate VM.
(3). Additional IM according to Liquidity	<ul style="list-style-type: none"> JSCC will require additional collateral according to the size of position held by IRS Clearing Participant. 	<ul style="list-style-type: none"> Additional collateral will be calculated depending on the required amount of IM. See Annex 3, for more information on specific application standard and multiplier.
(4). Deposit of IM	<ul style="list-style-type: none"> In cases of shortfall in IM deposit, the additional collateral shall be deposited to compensate such shortfall by noon on the business day after the shortfall has occurred (the calculation date). IM can be deposited by substitute securities (JGB and US Treasury) in addition to cash (Japanese Yen). 	<ul style="list-style-type: none"> Hair-cut will be set on substitute securities, based on the change in price.
8. Variation Margin (1). Calculation Methodology	<ul style="list-style-type: none"> VM is the variance between NPV calculated using the current day's yield curve and NPV calculated using the previous day's yield curve, composed for each IRS clearing participant's position (including trades subject for obligation bearing) as of 16:00 on each business day. 	<ul style="list-style-type: none"> JSCC to calculate and notify Clearing Participants of VM.
(2). Yield Curves to Be		

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Used to Calculate NPV		
I. Yield Curves	<ul style="list-style-type: none"> JSCC will calculate Forward Curve by obtaining quotes as of 15:02, for the grid points specified by JSCC, submitted by each broker/dealer and Designated Clearing Participant regarding the Quotes Submission. 	<ul style="list-style-type: none"> See Annex 4, for more information on the grid points.
a. Forward Curve		<ul style="list-style-type: none"> Quotes will be obtained from the screen provided by Thomson Reuters.
		<ul style="list-style-type: none"> See Annex 5, for more information on the quotes submission.
		<ul style="list-style-type: none"> A timing for adopting the quotes that will provide a base for calculation of Yield Curves will be set in the same timing as the close of the session for JGB. (This will apply to the following b.)
b. Discount Curve	<ul style="list-style-type: none"> OIS (Overnight Index Swap) curve will be used for Discount Curve to calculate VM. 	
	<ul style="list-style-type: none"> All clearing participants shall submit to JSCC the quotes as of 15:02 for the grid points specified by JSCC. 	<ul style="list-style-type: none"> See Annex 6, for more information on Grid Points.
	<ul style="list-style-type: none"> JSCC will calculate Discount Curve based on the quotes submitted. 	
II. Data Cleansing	<ul style="list-style-type: none"> The smallest and largest IRS data will be excluded from the quotes submitted and the average value will be worked out. 	<ul style="list-style-type: none"> JSCC will adjust any abnormal values found on each grid point.
III. Interpolation of Grid Points	<ul style="list-style-type: none"> Interpolation using logarithmic cubic spline. 	
IV. Mechanism for Ensuring Credibility of	<ul style="list-style-type: none"> The mechanism for ensuring credibility of quotes submitted will be introduced. 	<ul style="list-style-type: none"> See Annex 5 for more information on the quotes submission.
		<ul style="list-style-type: none"> See Annex 5, for more information on the mechanism for

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Quotes		<p>ensuring credibility of quotes submitted.</p> <ul style="list-style-type: none"> • The first 9month after the start of the business will not be subject to the relevant scheme, as the period for reviewing the framework based on the familiarity of submission of quotes and the status quo of the business (Dry Run Period).
(3). Settlement of VM	<ul style="list-style-type: none"> • IRS Clearing Participant will pay/receive VM to/from JSCC by cash. • Paying Clearing Participant in VM will pay to JSCC by noon on the following business day after the notification by JSCC. • Receiving Clearing Participant in VM will receive by JSCC after 13:30 on the same day. 	<ul style="list-style-type: none"> • In respect with VM, interest based on Mutan Rate (Uncollateralized Overnight Call Rate (average)) published by Bank of Japan will be added; that interest shall be calculated and settled daily on a portfolio basis. • Clearing Participant who pays VM to JSCC shall receive that interest from JSCC while Clearing Participant who receives VM from JSCC will pay that interest to JSCC.
(4). Coupon Treatment	<ul style="list-style-type: none"> • In order to offset the coupon payment and the change of NPV(VM) related to the relevant coupon payment on the coupon settlement day, VM on the business day before the coupon payment day will be calculated regarding NPV related to the relevant coupon as zero. 	
9. Intra-Day Margin (1). Calculation Methodology	<ul style="list-style-type: none"> • Intra-Day Margin (hereinafter referred to as 'IDM') shall be the amount calculated by adding/subtracting IM recalculated for each IRS Clearing Participant's position as of noon on each business day (including trades 	

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(2). Yield Curves to Be Used to Calculate IDMn	<p>expected for obligation bearing) using the latest market data to/from the amount equivalent to VM recalculated for that position using the latest market data (the changes in NPV from the point of the VM calculation on the previous business day to the point of the calculation of the relevant Intra-Day Margin).</p> <ul style="list-style-type: none"> The yield curves calculated by JSCC as of 11:02 will be used. 	<ul style="list-style-type: none"> Calculated in the same way as the yield curves used to calculate VM.(Shall be the same as VM for the quotes submission – See Annex 5) A timing for adopting the quotes which will provide a base for calculation of Yield Curves will be set in the same timing as the close of the morning session for JGB.
(3). Deposit of IDM	<ul style="list-style-type: none"> Intra-Day Margin shall be deposited as IM. In cases of shortfall in IM deposit against the required amount of IDM, the additional collateral shall be deposited to compensate such shortfall by 15:30 on the day on which such shortfall has occurred (the calculation date). IDM can be deposited by substitute securities (JGB and US Treasury) in addition to cash (Japanese Yen). 	<ul style="list-style-type: none"> IM deposit here will be regarded as that of IDM. Hair-cut will be set on substitute securities, based on the change in price.

Item #	Description	Remarks
10. Ad Hoc Deposit of IM etc. in the Event of Sudden Change in Market Data, etc.	<ul style="list-style-type: none"> JSCC will be able to calculate the required amount of IM and VM or IDM on ad hoc basis and require clearing participants to deposit those margins, when JSCC deems it necessary, such as a case of sudden change in market data. 	
11. Clearing Fund		
(1). Purpose of Clearing Fund	<ul style="list-style-type: none"> Regarding IRS trades, IRS Clearing Participants shall be required to make a deposit of Clearing Fund in order to secure the risk that is not covered by the margin which is deposited by IRS Clearing Participants. 	
(2). Required Amount of Clearing Fund	<ul style="list-style-type: none"> The required amount of Clearing Fund shall be an amount that can cover the loss produced as a result of insufficiency of margins deposited by IRS Clearing Participants caused by multiple IRS Clearing Participants default due to extreme but plausible market conditions (stress conditions) Specifically, the required amount of Clearing Fund shall be the amount where the sum of the top 2 companies in the excess amount of the IM out of the estimated loss in case of default by a Clearing Participant under the stress condition (“Risk Amount Exceeding the Collateral”) is proportioned according to the IM requirement (If the relevant amount falls below the minimum required amount, the minimum required amount shall be applied). 	<ul style="list-style-type: none"> Calculation and notification related to Clearing Fund shall be conducted by JSCC. The minimum required amount shall be JPY 100 million. The amount of loss caused by default by a Clearing Participant under the stress condition shall be the largest loss of which the loss is estimated in the six types of scenarios which were generated by combinations of the most severe fluctuations that the market has ever experienced (Refer to Annex 7) with taking into account the main composition element of the yield curve extracted from the historical interest changes by using the principal component analysis

Item #	Description	Remarks
(3). Deposit of the Clearing Fund	<ul style="list-style-type: none"> The required amount of the Clearing Fund shall be calculated one day before the last business day each week. In case any insufficiency has occurred for the Clearing Fund, the additional deposit shall be transferred by 2:00 pm on the following business day. As for the Clearing Fund, the deposit using the securities in lieu of cash (Japanese Government Bond and U.S. Treasury) in addition to JPY will be made possible. 	<ul style="list-style-type: none"> Appropriate hair cut rates will be applied to Securities in Lieu of Cash for collateral, taking into account of the price fluctuation
12. Rate Reset	<ul style="list-style-type: none"> For BBA Libor, the interest rate as of 11:00 am London time on the two London banking business days before the Reset Date, that will be indicated on the Reuters Screen (LIBOR01) will be adopted. 	
13. Method of Settlement (1). Settlement Method (2). Netting	<ul style="list-style-type: none"> In respect of the receipt or payment of cash between Clearing Participants and JSCC, for VM, the Interest for VM (PAI), Coupon, and Up-front fee (hereinafter, referred to as ‘settlement amount’), the delivery will be conducted through account transfer with BOJ Net. With regard to the daily settlement amount for IRS trades, the clearing participants will deliver the amount after netting with JSCC if the settlement day falls on the same day. 	<ul style="list-style-type: none"> To gain agreement from the Bank of Japan will be condition precedent over the usage of BOJ Net.
14. Deposit and Return of Collateral (1). Type of	<ul style="list-style-type: none"> Clearing Participants may deposit Japanese Yen or Securities in Lieu of Cash as 	<ul style="list-style-type: none"> VM may be covered only by cash and no Securities in

Item #	Description	Remarks
Collateral	IM, Intraday Margin, and Clearing Fund	Lieu of Cash are allowed for its deposit.
(2). Collateral in Cash	<ul style="list-style-type: none"> Delivery and return of Japanese Yen deposits for IM, Intraday Margin and Clearing Fund between the Clearing Participants and JSCC may be settled through account transfer between the Clearing Participant's bank a/c and the JSCC's a/c opened with commercial bank. 	<ul style="list-style-type: none"> VM may be settled through account transfer with BOJ Net. (See Item #12 (1))
(3). Interest on Collateral in Cash	<ul style="list-style-type: none"> As for the interest accrued for IM, Intraday Margin and Clearing Fund, JSCC will continue to proceed with research and studies on cases of management methodology/framework, etc, will be continuously examined and researched, and the details of management methodology and the framework will be then discussed prior to the start of the service. 	<ul style="list-style-type: none"> Considering the current interest rate environment, the profit generated from the management is extremely limited.
(4). Securities in Lieu of Cash	<ul style="list-style-type: none"> Eligible Securities in Lieu of Cash for collateral are Japanese Government Bond (hereinafter, referred to as 'JGB') and U.S. Treasury. JGB will be delivered through JGB Book Entry System between the Clearing Participant's a/c and JSCC's a/c used for JGB Book Entry System with BOJ. U.S. Treasuries will be delivered through Fed-Wire and transferred from the Clearing Participant's a/c held with the local custodian to JSCC's a/c held with the local custodian. 	<ul style="list-style-type: none"> Appropriate hair cut rates will be applied to Securities in Lieu of Cash for collateral, taking into account of the price fluctuation.
15. De-clear	<ul style="list-style-type: none"> Clearing participants can de-clear trades (the relevant trade is de-cleared from JSCC and returned to the original trade between the parties) by requesting through MarkitWire As for the trade where an application for the de-clear is submitted between 4:00 pm on the previous business day and 11:30 am on the current day, JSCC will 	

Item #	Description	Remarks
16. Loss Compensation Scheme (1). Financial Resources for Loss Compensation	<p>de-clear when confirming that any shortfall in Intraday Margin is filled in the obligation bearing procedure on the current day</p> <ul style="list-style-type: none"> As for the trade where an application for the de-clear is submitted between 11:30 am and 4:00 pm on the current day, JSCC will de-clear when confirming that the shortfall in the IM is filled in the obligation bearing procedure on the following day and the VM is deposited. In order to avoid the systemic risk caused by default of JSCC, any loss to JSCC caused by the default of Clearing Participant should be compensated according to the following order. (First tier) Margin / Clearing Fund deposited by the defaulting Clearing Participant. (Second tier) Compensation by JSCC (Third tier) Clearing Fund deposited by the Non-defaulting Clearing Participants (Limited to the Clearing Fund related to IRS business only) (Fourth tier) Special Clearing Charge collected from Non-defaulting Clearing Participants. (Fifth tier) Compensation by clearing participants who are to receive VM, etc. 	<ul style="list-style-type: none"> Based on the (CPSS/IOSCO) Recommendations (Recommendation 5: Financial resources), JSCC shall regularly inspect the loss compensation resources for Clearing Participant's default. Non-defaulting Clearing Participants shall mean the Clearing Participants other than the defaulting Clearing Participant. Clearing fund is limited to Clearing fund related to IRS business, (hereinafter, the same will apply) The Clearing Participants who are to receive VM, etc, shall mean the receiving Clearing Participants of VM in terms of cumulative amount after the default. (hereinafter, the same will apply) VM, etc shall be consisted of VM, interest for VM, Coupon and Up-front fee (hereinafter, the same will apply).

Item #	Description	Remarks
(2). Handling of Compensation by Non-Defaulting Clearing Participants' Clearing Fund	<ul style="list-style-type: none"> • With the commencement of IRS clearing business, JSCC will set aside certain amount as the amount of loss compensation by JSCC respectively in the second and third tier. • In addition, JSCC, in the second tier, shall accumulate the resources used for the compensation from an equivalent amount to the profit related to IRS clearing business, which will provide for the financial resources in addition to a certain amount secured at the launch of the business. JSCC, in the second tier, shall compensate the loss by using those accumulated amount and the amount secured at the launch of the business as the financial resources. • When the loss is compensated by using the third tier of loss compensation resources, Non-defaulting Clearing Participants and JSCC shall compensate the amount calculated by dividing the loss by the required amount of Clearing Fund of Non-defaulting Clearing participants and the amount of financial resources compensated by JSCC on a pro rata basis. • With regard to the proportioned amount as the compensation by the Non-defaulting Clearing Participants, each Non-defaulting Clearing Participant shall bear the amount calculated by prorating the required amount of Clearing Fund for each Non-defaulting Clearing Participant. • Clearing Fund of each Non-defaulting Clearing Participants shall be used for the default which occurred during 30 calendar days period from the first default. (If the default occurs during the relevant period, the relevant period will be extended to another 30 calendar days from subsequent default. The same will 	<ul style="list-style-type: none"> • A certain amount to be secured is expected to be JPY 2 billion respectively. • JSCC shall bear the amount which is proportioned to JSCC.

Item #	Description	Remarks
(3). Handling of Special Clearing Charge Collected from Non-Defaulting Clearing Participants	<p>apply to the default that might occur subsequently (“Period with a cap”). The loss compensation by Non-defaulting Clearing Participants shall be limited to the required amount of Clearing Fund of each Non-defaulting Clearing Participants in the first default.</p> <ul style="list-style-type: none"> • In case the loss is compensated by using Clearing Fund, the deposited amount shall be replenished up to the required amount of Clearing Fund as of the day when Clearing Fund is used, at the end of the period with a cap. • Clearing Fund of winning Clearing Participant at the auction related to the position by the Defaulting Clearing Participant shall be used after Clearing Fund of other Clearing Participants are used. Also, All of Clearing Fund of Clearing Participants who did not make a bid at the auction shall be used before Clearing Fund of other Clearing Participants is used. • In case where the loss incurred due to the default of Clearing Participant exceeds the sum of the first, second and third tier of loss compensation resources, Non-defaulting Clearing Participants shall compensate the loss by using the Special Clearing Charge. • Special Clearing Charge collected from Non-Defaulting Clearing Participants shall be the amount calculated by dividing the required amount of Clearing Fund of each Non-defaulting Clearing Participant on a pro rata basis. • Compensation by Special Clearing Charge by each Non-defaulting Clearing Participant for the default that occurred during the period with a cap is limited to the required amount of Clearing Fund of each Non-defaulting Clearing 	<ul style="list-style-type: none"> • The preferential use of Clearing Fund depending on the bidding price, aiming at preventing “a bid with a extremely bad price in an attempt not to win the bid” from occurring, will be continuously discussed considering the progress of the discussions at other CCPs (See the remarks column in Item #17 (5))

Item #	Description	Remarks
(4). Handling of Compensation by Recipient Clearing Participants of Variation Margin, etc.	<p>Participants in the first default.</p> <ul style="list-style-type: none"> In case where the loss incurred by JSCC due to the default of Clearing Participant exceeds the sum of the first, second, third and fourth tier of loss compensation resources, the loss shall be compensated by Recipient Clearing Participants of VM, etc. Recipient Clearing Participant shall compensate the amount calculated by dividing such excess amount of the sum of gained VM (hereinafter referred to as 'the sum of gained VM') on a pro rata basis. In this case, the sum of compensation amount by each Recipient Clearing Participant shall be limited to the amount calculated by dividing the sum of the loss of VM, etc, by defaulting Clearing Participant on a pro rata basis after such default. 	<ul style="list-style-type: none"> The amount compensated by the Recipient Clearing Participant shall be Special Clearing Charge.
(5). Deposit of the Collateral During the Period with a cap	<ul style="list-style-type: none"> During the period with a Cap, As for Clearing Fund, the required amount of Clearing Fund in the occurrence of the first default (if some of the amount was used for the loss compensation resources in the third tier, such amount will be excluded) shall be adopted. During the period with a cap, apart form Clearing Fund, each Non-defaulting Clearing Participant shall be required to deposit the collateral (the secondary Initial Margin (a tentative name)) calculated based on the fluctuations of the required amount of Clearing Fund by Non-defaulting Clearing Participants. 	<ul style="list-style-type: none"> The result of the calculation of the required amount of Clearing Fund on a weekly basis shall not be applied.
I. Calculation Method of the	<ul style="list-style-type: none"> During the period with a cap, the required amount of Clearing Fund will be 	<ul style="list-style-type: none"> The required amount of Clearing Fund calculated on a

Item #	Description	Remarks
Secondary Initial Margin (a tentative name)	<p>calculated on a daily basis.</p> <ul style="list-style-type: none"> • In case calculated required amount exceeds a certain amount in comparison to the applicable required amount on the previous day, the calculated required amount shall be the applicable required amount on the current day, while the increased amount from the applicable required amount on the previous day shall be required amount of the secondary Initial Margin (a tentative name) • In those cases where the calculated required amount on the current day increased but falling below a certain percentage or the calculated required amount on the current day decreased compared to the applicable required amount on the previous day, the applicable required amount on the previous day shall be the amount of the applicable required amount on the current day. • The required amount of the secondary Initial Margin (a tentative name) shall be zero with the end of the period with a cap. 	<p>daily basis, and the amount that will be used for calculating the secondary Initial Margin (a tentative name) shall be the “applicable required amount” (hereinafter the same will apply).</p> <ul style="list-style-type: none"> • A certain amount will be continuously discussed. • In this case, the required amount of the secondary Initial Margin (a tentative name) will remain unchanged. • The secondary Initial Margin (a tentative name) deposited within the period with a cap will be transferred into the deposit of Clearing Fund on the business day following the end of the period with a cap.
II. Deposit of the Secondary Initial Margin (a tentative name)	<ul style="list-style-type: none"> • In case the deposit of the secondary Initial Margin amount fails in, such insufficient Margin shall be deposited by noon on the business day following the occurrence of such shortage in the amount. • With regard to the deposit (deposit in cash, interest for the deposited cash, the 	

Item #	Description	Remarks
<p>(6). Handling of the Case Where the Financial Resources for Loss Compensation are not Placed</p>	<p>deposit in securities in lieu of cash) of the secondary Initial Margin (a tentative name) shall be handled in the same manner as the Initial Margin (See Item #14)</p> <ul style="list-style-type: none"> • In case where the Non-Defaulting Clearing Participant does not place the amount as fourth and fifth tier, default proceedings will take place for such Clearing Participant (Secondary Defaulting Clearing Participant). • The loss incurred as cause of fourth and fifth tier not being placed will be appropriated by the collateral of the secondary Defaulting Clearing Participant, and as for the remaining loss is concerned, it will be borne by other Non-Defaulting Clearing Participants as the loss related to each tier by the bearing method according to each such tier. 	<ul style="list-style-type: none"> • In order to avoid the situation where the losses incurred by JSCC exceeds the loss compensation resources leading to the case where the auction related to the portfolio of the defaulting clearing participant will fail ex post facto, caused by the failure to pay the fourth and fifth tier's loss compensation resources, the measures will be continuously discussed given that the impact on the operation and bidding price, with taking into the account the following proposals, etc. <ul style="list-style-type: none"> i. In case the contract price is deemed to be determined at the level where the loss compensation resources from the unfunded portions of each clearing participant will be necessary, the auction will be successfully conducted at the time when the relevant amount to be borne is deposited with JSCC. ii. The auction will be successfully conducted within the range of the loss compensation resources which is actually deposited with JSCC. If the loss exceeds the loss compensation resources

Item #	Description	Remarks
(7). Handling of Clearing Participant Who Submitted the Application for Renunciation	<ul style="list-style-type: none"> With regard to the Clearing Participant who submitted the application for renunciation, they will be required to participate for compensation of Clearing Fund (third tier), compensation through Special Clearing Charge (fourth tier) and compensation by the Recipient Clearing Participant of VM, etc (fifth tier) for the loss due to Clearing Participant's default that occurred before the Renunciation of the Clearing Qualification. With regard to the Clearing Participant who had clearing qualification renounced, the participant will not be required to participate for compensation of Clearing Fund (third tier), compensation through Special Clearing Charge (fourth tier) and compensation by the Recipient Clearing Participant of VM (fifth tier) for the loss due to Clearing Participant's default that occurred after the Renunciation of the Clearing Qualification. 	<p>deposited with JSCC, the auction will fail. After the collateral related to the loss compensation resources in the forth and fifth tier is deposited with JSCC, the auction will be then conducted.</p> <ul style="list-style-type: none"> The Clearing Participant who submitted the application for renunciation of the clearing qualification will renounce the qualification on the day when 30 days have passed since the application or the day when all the positions are closed, whichever is later. . If an application for renunciation is submitted, however, during the period with a cap, or in case the default occurs by the day when 30 days have passed since the application or by the day when all the positions are closed, whichever is later, such Clearing Participant will renounce the qualification on the day when the period with a cap ends or on the day when all the positions are closed, whichever is later.
(8). Handling of the credit obligation collected from the Defaulting Clearing	<ul style="list-style-type: none"> For the credit obligation that was supposed to be compensated by the Loss Compensation, in case JSCC was able to collect the amount from the defaulting 	<ul style="list-style-type: none"> See Reference 1 for the timing of effectiveness of the renunciation of the clearing qualification.

Item #	Description	Remarks
<p>Participant</p> <p>17. Scheme for Managing Settlement Failure by the Clearing Participant</p> <p>(1). Process for Managing Portfolio</p>	<p>Clearing Participant, such collected amount should be distributed to the Clearing Participants who participated in Loss Compensation etc, in a proportioned amount.</p> <ul style="list-style-type: none"> • Distribution should take place for borne portion related to the financial resources for loss compensation of Third to Fifth tier, and if there should be any remaining amount, it should be returned by the amount as reasonably determined by JSCC as equivalent to the restructuring cost generated from the early termination of positions for Non-defaulting Clearing Participant. <ul style="list-style-type: none"> • In case the default by Clearing Participant occurred, JSCC will dispose of the portfolio of the defaulting Clearing Participant as follows. <ul style="list-style-type: none"> i JSCC will convene Clearing Participant who will be cooperating with the default management. ii JSCC will implement the risk hedge for the portfolio of the defaulting Clearing Participant iii The auction will be conducted related to the portfolio of the defaulting Clearing Participant. iv The negotiation will be made (in the event of failure of the auction) 	<ul style="list-style-type: none"> • As for the distribution of borne portion related to the resource of loss compensation for third to fifth tier is concerned, the amount will be proportioned by each borne amount in the order from fifth to third tier. • See Reference 2 for the details for the Scheme for Managing Settlement Failure by the Clearing Participant • The framework as with CDS is assumed.

Item #	Description	Remarks
<p>(2). Clearing Participants Which Cooperate in Default Management</p>	<p>v All positions will be terminated (when the negotiation fails to reach an agreement)</p> <ul style="list-style-type: none"> • JSCC shall designate five clearing participants to co-operate with default processing. • One of the cooperating participants should resign quarterly, and a new company should be accordingly selected as a replacement. • The Co-operative Participant shall provide one staff per company for the implementation of the risk hedge of the portfolio of the defaulting Clearing Participant and conduction of the auction. • “Default Management Committee (DMC) will be comprised of staff provided by the Co-operative Participants. The Committee shall assume a position as a consultative body to JSCC with regard to default management processing. • In case of Clearing Participant’s default, JSCC will immediately seek to gain an understanding of the contents of portfolio for such Clearing Participant and conduct any necessary risk hedging based on the judgment of DMC. 	<ul style="list-style-type: none"> • JSCC will randomly order all Clearing Participants in a list. The first five participants on the list will be appointed as a Co-operative Participants. • The term of the Co-operative Clearing Participant shall be one year and three months. • At the termination of Co-operative Participants’ term, JSCC will appoint the next one participant on the list as new Co-operative Participant. The former Co-operative Participants will be moved to the end of the list. • Such staff will offer advice and conduct any other actions deemed necessary by JSCC. Furthermore, such staff will bear a confidentiality obligation with regard to the default management processing. • The means of risk-hedging, etc will be discussed at DMC.
<p>(3). Risk hedge of the Portfolio</p>		
<p>(4). An Auction of the Portfolio</p>		

Item #	Description	Remarks
	<ul style="list-style-type: none"> • JSCC will conduct an auction for proprietary positions of a Defaulting Clearing Participant, client (affiliate) positions of the defaulting clearing participant which were not transferred to other clearing participant(s) and risk-hedged positions of JSCC. • JSCC will stipulate that it is mandatory for Clearing Participants to make a bid in the auction. • Only clearing participants will participate as bidders in the auction, however, clients (affiliate) may participate in the auction through Clearing Participants. • The highest bidding price at the auction shall be the contract price, and the highest bidding participant shall be deemed as the Successful Bidder Participant and such participant will assume the entire position posed for the auction. • IRS trades corresponding to the portfolio any Clearing Participant makes a successful bid for on the auction will be formed between such clearing participant and JSCC. • In case where more than one Clearing Participants submit bids at the same price and such price turns out to be the contact price, the winner will be determined by lot. • If the Defaulting Clearing Participant's position is huge, the auction will be conducted for each group after the positions are divided into multiple groups, based on the advice given by DMC. • The clearing participants shall not reveal the confidential information related to 	<ul style="list-style-type: none"> • JSCC will check adequacy of the participant's operational system and structure at the time of application for Clearing Qualification. • Clearing Participants will remain ultimately responsible to JSCC for taking on the relevant positions if bids by the clients (affiliate) are successful. • There will be no minimum or maximum bid price.

Item #	Description	Remarks
(5). The Scheme for Increasing the Possibility of the Successful Auction	<p>the auction such as the contents of the portfolio which will be subject to the bid</p> <ul style="list-style-type: none"> • In case the successful auction has been conducted, the counterparty of the original trade of the trades subject to the auction shall be changed from the Defaulting Clearing Participant to the Clearing Participant who made the successful bid. • The participant who made a successful bid at the auction shall pay the bidding amount to JSCC on the day prescribed by JSCC <ul style="list-style-type: none"> • In case the loss incurred by JSCC due to the default by Clearing Participant is compensated by using Clearing Fund (Third tier of loss compensation resources) of Non-defaulting Clearing Participant, Clearing Fund of the Clearing Participant who made a successful bid at the auction shall be used after Clearing Fund of the other Clearing Participants were used. This handling will only apply to the default related to the auction at which the successful bid was made. • With regard to the Clearing Participants who did not make a bid at the auction, 	<ul style="list-style-type: none"> • If the contract price is in the negative territory, the amount shall be received from JSCC. • The successful bidding amount shall be subject to the netting with the settlement amount (See Item #13). • The detailed administrative procedures for the auction will be discussed together with the scheme for ensuring loss compensation resources of fourth tier and fifth tier. (See the remarks column in Item #16 (6)) <ul style="list-style-type: none"> • The Clearing Participant who made a bid but did not win at the auction shall bear the amount calculated by dividing the required amount of Clearing Fund on a pro rata basis, regardless of the level of the bidding price submitted. • The preferential use of the Clearing Fund depending on the bidding price, aiming at preventing “a bid with a extremely bad price in an attempt not to win the bid”

Item #	Description	Remarks
(6). Handling of Clearing Participant Who Submitted the Application for Renunciation	<p>the sum of Clearing Fund shall be used in advance of Clearing Fund of the other Clearing Participants being used. Afterwards, this handling will apply to the default that occurs during the period with a cap as well. If, however, the participant made a successful bid at the auction, such participant will not be subject to this handling for the default that will occur afterwards. (In this case, the favorable treatment related to the use of the clearing fund concerning the auction at which the participant won will not be applied.)</p> <ul style="list-style-type: none"> • Even the Clearing Participant who submitted an application for renunciation of the Clearing Qualification will bear the obligation to participate in the auction before the Clearing Qualification is renounced. In case, however, the relevant Clearing Participant has closed its position, JSCC will exempt such Clearing Participant from the obligation to participate in the auction with the condition that the Clearing Fund will be subject to the preferential use. 	<p>from occurring, will be continuously discussed considering the progress of the discussions at other CCPs.</p> <ul style="list-style-type: none"> • After the auction has completed, the verification of bids and discussions as to whether/not to improve the bid system shall be made at the IRS Steering Committee. In case JSCC judges a certain action is required as a result of the relevant verification, JSCC will consult the Disciplinary Measure Assessment Committee regarding the action. • See Reference 1 for the timing of effectiveness of the renunciation of the clearing qualification.
(7). Default processing in cases where the auction fails	<ul style="list-style-type: none"> • With regard to the Clearing Participant who submitted an application for the renunciation of the Clearing Qualification will not be required to participate in the auction for the default which occurred after the Clearing Qualification is renounced. • After an auction, in cases where the loss (including the loss due to an auction) incurred by JSCC due to the default processing of the clearing participant is found to exceed the Loss Compensation Resource in the Loss Compensation, JSCC and Clearing Participants will negotiate regarding default procedures in a prompt manner. 	<ul style="list-style-type: none"> • In order to avoid the case where the loss compensation by JSCC exceeds the loss compensation resources caused by failure to pay loss compensation resources by the Fourth and Fifth tier, the scheme for ensuring the loss compensation scheme in the fourth and fifth loss tier will

Item #	Description	Remarks
(8). Transfer of Clients' position	<ul style="list-style-type: none"> • In case where an agreement is reached in the negotiation, the default processing will be conducted accordingly. • In cases where the negotiation fails to reach an agreement, auctions shall fail and all positions of all participants shall be terminated. 	<p>be continuously discussed. (See Remarks column for the Item #16 (6))</p> <ul style="list-style-type: none"> • The agreement shall be made on a full consensus basis. • The agreement shall include measures to cover the loss amount incurred by JSCC so that JSCC can continue to operate its clearing services after default processing. • Termination is conducted based on the settlement price on the day of the auction. • If termination is conducted, losses due to losses of the VM, etc before termination shall be compensated using the Loss Compensation Resources.
(9). Management of Clients' Initial Margin When the Position Is Transferred	<ul style="list-style-type: none"> • A client (affiliate) of a defaulting Clearing Participant (affiliate) may transfer its position to another Clearing Participant. • A client (affiliate) who wishes to transfer its position shall apply to another Clearing Participant to obtain the acceptance from such Clearing Participant. • Transferee Clearing Participant shall submit a relevant document to JSCC regarding such transfer. • Any client position which has not been included in such document for transfer within the period set by JSCC shall be handled together with the position of the defaulting Clearing Participant and processed for auction. • The IM from the client whose position has been transferred to another Clearing Participant, shall be handled as the IM placed with JSCC deposited by the 	<ul style="list-style-type: none"> • In case where a Clearing Participant accepts positions of a client of a defaulting Clearing Participant, JSCC shall allow the relevant Clearing Participant to conduct Clearing Brokerage for that client. • Such margin shall be kept by JSCC and further withdrawal and deposit shall be made through the

Item #	Description	Remarks
18. Governance	<p>transferee Clearing Participant being the agent.</p> <ul style="list-style-type: none"> • The request to return the margin from the client, whose position was not transferred shall be made directly to JSCC. • With regard to the clearing business of IRS trades, JSCC will issue the IRS class share in an attempt to separate the capital, and profit and loss between the clearing business related to exchange traded products and clearing business related to CDS trades as well as cutting off the risk. • The IRS class shareholders will be able to nominate one person for the JSCC's board member so that the opinions raised from IRS class shareholders will be reflected into the business management. • Furthermore, in order to reflect the opinions raised from Clearing Participants and IRS class shareholders into the administration framework and the practical operations, IRS Steering Committee will be established, which will serve as the advisory committee for JSCC's board of directors. 	<p>transferee Clearing Participant.</p> <ul style="list-style-type: none"> • In case such client bears any unsettled client clearing obligation against the defaulting Clearing Participant, return will be made after deducting any such unsettled obligation amount. • The amount of the issue is expected to be JPY 5 billion. • In consideration of the business strategies such as the expansion of the range of the trades that JSCC will transact, etc, the composition of board members will be revised from time to time in respect of maintaining the appropriate balance between clearing business related to OTC derivatives trades and clearing business related to exchange traded products in the aspect of the governance. • Matters which require the resolution at the IRS class shareholders' meeting are as provided in Anex8. • See Annex 9 for the IRS Steering Committee.

Item #	Description	Remarks
III. Other fees IV. A cap on the fees 20. Matters for Ongoing Discussion Toward the Responses Taken After the Start of the Business 21. Starting Date of Service	<p>amount than the one for general Clearing Participants prescribed by JSCC.</p> <ul style="list-style-type: none"> • Fees other than the clearing fee are as provided in Annex 10. • For Clearing Participants who are the IRS class shareholders, the minimum annual clearing fee will be introduced. • Matters for ongoing discussion toward the responses taken after the start of bearing business are provided as in the Annex 11. • JSCC will proceed with the preparations for the service in an attempt to start the business on October 9th 2012. 	<ul style="list-style-type: none"> • An approval for the Business Rules should be obtained from Financial Services Agency Commissioner as a condition for the launch of the clearing service.

Level where Additional IM in Proportion to Creditworthiness is applied

Level where Additional IM in Proportion to Creditworthiness and Relevant Measures are applied	Specific Additional Ratios and Remarks (*1)
- When all ratings (*2) are judged as creditworthiness of BBB+ or below (*3)	- Additional IM of 10% (*4)
- When all ratings (*2) are judged as creditworthiness of BBB or below (*3)	- Additional IM of 50% (*4)
- When all ratings (*2) are judged as creditworthiness of BBB- (minus) or below (*3)	- Renunciation of clearing qualification - Additional IM of 100% until the renunciation (*4)
- When any one of ratings (*2) is judged as creditworthiness of BBB+ or below where capital-to-risk ratio etc. also falls below a certain level (250% for the capital-to-risk ratio, 10% for international capital adequacy ratio, 5% for domestic capital adequacy ratio and 500% for solvency margin ratio) (*3)	- Additional IM of 10% additional ratio (*4)
- When any one of ratings (*2) is judged as creditworthiness of BBB or below where capital-to-risk ratio etc. also falls below a certain level (250% for the capital-to-risk ratio, 10% for international capital adequacy ratio, 5% for domestic capital adequacy ratio and 500% for solvency margin ratio) (*3)	- Additional IM of 50% additional ratio (*4)
- When any one of ratings (*2) is judged as creditworthiness of BBB-(minus) or below where capital-to-risk ratio etc. also falls below a certain level (250% for the capital-to-risk ratio, 10% for international capital adequacy ratio, 5% for domestic capital adequacy ratio and 500% for solvency margin ratio) (*3)	- Renunciation of clearing qualification - Additional IM of 100% until the renunciation (*4)

(*1) In case positions the participant possesses, in addition to the exacerbating creditworthiness, are deemed exorbitant, JSCC can request the participant to “improve the possession situation of positions.”

(*2) Ratings of Parent Company etc., if guaranteed by the relevant Parent Company. Though ratings of Parent Company will be used when Clearing Participant has no rating (or no guarantee by Parent Company etc.), in such case the creditworthiness will be judged according to the application criteria up one notch. Ratings shall be long-term debt ratings (excluding so-called ‘unsolicited ratings’) assigned by “credit rating agency” stipulated by the Financial Instruments and Exchange Act (Paragraph 36 of Article 2 of the Financial Instruments and Exchange Act. As of the timing of the commencement of Interest Rate Swaps Clearing, Rating & Investment Information, Inc., Moody’s Investors Services, Inc., Moody’s SF Japan, Standard & Poor’s Ratings Japan K.K., Japan Credit Rating Agency, Ltd., Fitch Ratings Japan and Nippon Standard & Poor’s K.K. shall be applied as credit rating agency) and by its specified affiliates (Paragraph 2 of Article 116-3 of Ordinance of Cabinet Office Concerning the Financial Instruments and Exchange Act)

(*3) Creditworthiness will be judged comprehensively one by one using the following measuring factors, in addition to the standards on ratings, including: comparison to other companies that satisfy the factors regarding ratings noted above in terms of market information such as spreads of corporate bonds/CDS and share price or whether/not sudden change in those information in the recent market, etc., or whether/not extreme decrease in financials such as liquidity on hand, or situation regarding positions of the participant etc..

(*4) Specific additional ratio shall be determined one by one setting the relevant additional ratio as the upper limit and taking into consideration the participant’s financial condition such as liquidity on hand or situation regarding positions of the participant etc..

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Scaling for the calculation of the Initial Margin

The required amount for the Initial Margin will be calculated based on the historical data for the past five years by estimating the loss incurred by each participant's positions, by using VaR.

The historical data where this VaR is used will be adjusted, with the focus on the volatility of each scenario. (Filtered Historical Simulation Value at Risk:FHSVaR)

Scaling Concepts in Filtered Historical Simulation

In order to reflect the most recent volatility to the amount of the initial margin, the measured volatility will be standardized based on the volatility as of the assessment time after the historical scenario are generated by giving greater weight to more recent value.

Specific Scaling Method (Exponentially Weighted Moving Average)

$$r_t^* = r_t \left(\frac{\sigma_t + \sigma_N}{2\sigma_t} \right) \quad \text{where} \quad \sigma_t^2 = \lambda \sigma_{t-1}^2 + (1-\lambda)r_t^2$$

r_t^* = Scaled return at time t (will be used to calculate FHSVaR).

r_t = Return at time t (will be used to calculate the historical VaR)

σ_t = Volatility at time t

λ = Decay factor for Exponentially Weighted Moving Average

t = At a certain time point in the historical scenario

N = Assessment day (Current day)

The floor is established for the relevant coefficient as follows

$$\begin{cases} r_t^* = r_t \times \text{Floor} & \text{if} \quad \left(\frac{\sigma_t + \sigma_N}{2\sigma_t} \right) < \text{Floor} \\ r_t^* = r_t \left(\frac{\sigma_t + \sigma_N}{2\sigma_t} \right) & \text{if} \quad \left(\frac{\sigma_t + \sigma_N}{2\sigma_t} \right) \geq \text{Floor} \end{cases}$$

Level where Additional IM in Proportion to Liquidity is Applied and Additional Ratio

- When the required amount of IM for the principal account or the client account hold by each IRS Clearing Participant exceeds certain amount Additional IM for the principal account or the client account shall be applied based on the following criteria:

Required Amount of IM (JPY mil.)	Additional Ratio
30,000	1.1
}	}
50,000	1.2
}	}
70,000	1.4
}	}
90,000	1.6
}	}
110,000	1.8
}	}
130,000	2.0
}	}

* The additional ratio between stages shall be calculated using linear interpolation (In case of above the required amount of IM of JPY 130,000 mil. the additional ratio shall be calculated extrapolating stages between JPY110,000 mil. and JPY130,000 mil.).

* The above criteria and additional ratio shall be reviewed from time to time given the market environment under the Dry Run Period (See the remarks column Item#8 (2) iv)).

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Grid Points for Construction of Forward Curve

1. Grid Points of 3M-Libor Swap	
Products	Rates
FRA (Fixing)	0 x 3, Libor
FRA	1 x 4, Libor
FRA	2 x 5, Libor
FRA	3 x 6, Libor
FRA	4 x 7, Libor
FRA	5 x 8, Libor
FRA	6 x 9, Libor
FRA	7 x 10, Libor
FRA	8 x 11, Libor
Basis Swap	1Y (3M vs 6M), Libor
Basis Swap	18M (3M vs 6M), Libor
Basis Swap	2Y (3M vs 6M), Libor
Basis Swap	3Y (3M vs 6M), Libor
Basis Swap	4Y (3M vs 6M), Libor
Basis Swap	5Y (3M vs 6M), Libor
Basis Swap	6Y (3M vs 6M), Libor
Basis Swap	7Y (3M vs 6M), Libor
Basis Swap	8Y (3M vs 6M), Libor
Basis Swap	9Y (3M vs 6M), Libor
Basis Swap	10Y (3M vs 6M), Libor
Basis Swap	12Y (3M vs 6M), Libor
Basis Swap	15Y (3M vs 6M), Libor
Basis Swap	20Y (3M vs 6M), Libor
Basis Swap	25Y (3M vs 6M), Libor
Basis Swap	30Y (3M vs 6M), Libor
Basis Swap	35Y (3M vs 6M), Libor
Basis Swap	40Y (3M vs 6M), Libor

2. Grid Points of 6M-Libor Swap	
Products	Rates
FRA (Fixing)	0 x 6, Libor
FRA	1 x 7, Libor
FRA	2 x 8, Libor
FRA	3 x 9, Libor
FRA	4 x 10, Libor
FRA	5 x 11, Libor
Swap	1Y 6M/6M, Libor
Swap	18M 6M/6M, Libor
Swap	2Y 6M/6M, Libor
Swap	3Y 6M/6M, Libor
Swap	4Y 6M/6M, Libor
Swap	5Y 6M/6M, Libor
Swap	6Y 6M/6M, Libor
Swap	7Y 6M/6M, Libor
Swap	8Y 6M/6M, Libor
Swap	9Y 6M/6M, Libor
Swap	10Y 6M/6M, Libor
Swap	12Y 6M/6M, Libor
Swap	15Y 6M/6M, Libor
Swap	20Y 6M/6M, Libor
Swap	25Y 6M/6M, Libor
Swap	30Y 6M/6M, Libor
Swap	35Y 6M/6M, Libor
Swap	40Y 6M/6M, Libor

(Reference) Grid Points of 1M-Libor Swap	
Products	Rates
FRA (Fixing)	1M Libor
Swap	3M1M
Swap	6M1M
Swap	9M1M
Basis Swap	1Y (1M vs 6M), Libor
Basis Swap	18M (1M vs 6M), Libor
Basis Swap	2Y (1M vs 6M), Libor
Basis Swap	3Y (1M vs 6M), Libor
Basis Swap	4Y (1M vs 6M), Libor
Basis Swap	5Y (1M vs 6M), Libor
Basis Swap	6Y (1M vs 6M), Libor
Basis Swap	7Y (1M vs 6M), Libor
Basis Swap	8Y (1M vs 6M), Libor
Basis Swap	9Y (1M vs 6M), Libor
Basis Swap	10Y (1M vs 6M), Libor
Basis Swap	12Y (1M vs 6M), Libor
Basis Swap	15Y (1M vs 6M), Libor
Basis Swap	20Y (1M vs 6M), Libor
Basis Swap	25Y (1M vs 6M), Libor
Basis Swap	30Y (1M vs 6M), Libor
Basis Swap	35Y (1M vs 6M), Libor
Basis Swap	40Y (1M vs 6M), Libor

(Reference) Grid Points of 6M-Tibor Swap	
Products	Rates
FRA (Fixing)	0 x 6, Tibor
FRA	1 x 7, Tibor
FRA	2 x 8, Tibor
FRA	3 x 9, Tibor
FRA	4 x 10, Tibor
FRA	5 x 11, Tibor
Swap	1Y 6M/6M, T-L SP
Swap	18M 6M/6M, T-L SP
Swap	2Y 6M/6M, T-L SP
Swap	3Y 6M/6M, T-L SP
Swap	4Y 6M/6M, T-L SP
Swap	5Y 6M/6M, T-L SP
Swap	6Y 6M/6M, T-L SP
Swap	7Y 6M/6M, T-L SP
Swap	8Y 6M/6M, T-L SP
Swap	9Y 6M/6M, T-L SP
Swap	10Y 6M/6M, T-L SP
Swap	12Y 6M/6M, T-L SP
Swap	15Y 6M/6M, T-L SP
Swap	20Y 6M/6M, T-L SP
Swap	25Y 6M/6M, T-L SP
Swap	30Y 6M/6M, T-L SP
Swap	35Y 6M/6M, T-L SP
Swap	40Y 6M/6M, T-L SP

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The Structure of Submitting Quotes for Constructing Yield Curves for Margin Calculation and Rules for Ensuring Credibility

Section #	Description	Remark
1 . Prerequisites etc. for Quotes to Be Submitted (1) Scope of Products for Submission of Quotes and Clearing Participants (2) Prerequisites for Quotes to Be Submitted (3) Grid Points for Which Submission of Quotes is Required	<ul style="list-style-type: none"> - OIS curves (discount curves) - All clearing participants will be requested to submit quotes - Fixed interest rate : Act/365, Annual (OIS) - Business Day : Tokyo - Business Day Convention : Modified Following - Grid Points that are described in Annex 6 	<ul style="list-style-type: none"> - A “Designated Clearing Participant” system will be put in place, and Designated Clearing Participants will be requested by JSCC to submit quotes for products JSCC designates. (See Section #5 below). - Designated Clearing Participant is the clearing participant designated by JSCC based on Clearing Participant’s request, who will submit quotes pre-specified by JSCC. A system in which Clearing Participant will receive a certain amount of discount on “basic” clearing fees will be put in place, as an incentive. - When any participant has become Designated Clearing Participant, the specific discount on the basic clearing fee will be JPY200K. - Will be up to ISDAFIX.
2. Deadline / Method of Submission (1) Deadline to Submit Quotes	<ul style="list-style-type: none"> - Clearing Participant shall submit quotes as of 11:02 and 15:02 within 23 minutes by 11:25 and 15:25 respectively. 	<ul style="list-style-type: none"> - Quotes shall be submitted with mid price. - Resubmission of those quotes is allowed during the submission window in the left column.

Section #	Description	Remark						
(2) Method to Submit Quotes	- Clearing Participant shall submit quotes to JSCC via THOMSON REUTERS' (hereinafter referred to as 'REUTERS') services.	<ul style="list-style-type: none"> - Predicated on the agreement with Reuters for providing information on quotes. - A method of data submission will be chosen from several options including the following two, among what each participant opts for: i) using Reuters' scheme dedicated for data input, and ii) connecting systems between each participant and Reuters. 						
3. Curves Construction Process	- JSCC will first calculate the average value (simple arithmetic mean) of the submitted quotes, removing the largest and the smallest data from the quotes submitted by clearing participants and then construct curves based on the relevant average value.	<ul style="list-style-type: none"> - When quotes submitted have any abnormal values, those values will be excluded before processing the calculation mentioned in the left column. - 3M and 6M Tenors will be processed in the same manner using data both submitted by Clearing Participant and obtained from the brokers' screen. 						
<p>4. Rules for Ensuring Credibility</p> <p>(1) When Quote that was Submitted Significantly Diverge from the Overall Level</p>	<p>- When quotes submitted by Clearing Participant significantly diverge from the average value calculated, clearing fee will be added, based on the following criteria:</p> <table border="1" data-bbox="533 1027 1214 1155" style="margin-left: 20px; border-collapse: collapse; width: 100%;"> <thead> <tr> <th style="text-align: left;"># Incidents</th> <th style="text-align: right;">Each Addition</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;"><u>2nd Incident</u></td> <td style="text-align: right;"><u>JPY50K</u></td> </tr> <tr> <td style="text-align: left;"><u>3rd Incident On</u></td> <td style="text-align: right;"><u>JPY100K</u></td> </tr> </tbody> </table>	# Incidents	Each Addition	<u>2nd Incident</u>	<u>JPY50K</u>	<u>3rd Incident On</u>	<u>JPY100K</u>	<ul style="list-style-type: none"> - With respect to Designated Clearing Participant, OIS and the products for which Designated Clearing Participant is required to submit quotes (6M-Libor Swap and 3M-Libor Swap) shall be subject to this rule - The range of divergence that will be the basis for addition of clearing fee will be specified for each grid point considering historical trends in the level of Bid/Ask spreads. - The relevant range of criteria will be reviewed every month. The relevant range will be reviewed as needed upon request by Clearing Participant due to the change of market environment etc. - # Addition incidents will be counted in business days; # incidents
# Incidents	Each Addition							
<u>2nd Incident</u>	<u>JPY50K</u>							
<u>3rd Incident On</u>	<u>JPY100K</u>							

Section #	Description	Remark						
(2) When Quote Is Not Submitted	<p data-bbox="506 719 1323 847">- When any Clearing Participant did not submit quotes for products for which quotes submission is required, clearing fee will be added, based on the following criteria:</p> <table data-bbox="533 911 1211 1038"> <thead> <tr> <th data-bbox="533 911 958 943"># Incidents</th> <th data-bbox="958 911 1211 943">Each Addition</th> </tr> </thead> <tbody> <tr> <td data-bbox="533 951 958 991"><u>2nd Incident</u></td> <td data-bbox="958 951 1211 991"><u>JPY50K</u></td> </tr> <tr> <td data-bbox="533 999 958 1038"><u>3rd Incident On</u></td> <td data-bbox="958 999 1211 1038"><u>JPY100K</u></td> </tr> </tbody> </table>	# Incidents	Each Addition	<u>2nd Incident</u>	<u>JPY50K</u>	<u>3rd Incident On</u>	<u>JPY100K</u>	<p data-bbox="1368 188 2119 416">shall be based on 6 months dating back from each day on which the quotes submitted were deemed as divergent. OIS and the products for which Designated Clearing Participant is required to submit quotes shall be counted together in business days, not separately (the same shall apply hereinafter).</p> <ul data-bbox="1346 432 2119 1326" style="list-style-type: none"> - The first addition incident shall not be deemed as the subject of addition and the addition shall be applied from the 2nd case onward. - Implementation of the execution process based on submitted quotes as a scheme to ensure credibility, and its appropriateness, will be discussed on an ongoing basis. - With respect to Designated Clearing Participant, OIS and the products for which Designated Clearing Participant is required to submit quotes (6M-Libor Swap and 3M-Libor Swap) shall be subject to this rule. - # Addition incidents where any participant(s) are deemed as yet to submit shall be counted in business days; # incidents shall be based on 6 months dating back from each day on which the participants were deemed as yet to submit quotes. OIS and products for which Designated Clearing Participant is required to submit quotes counted together in business days, not separately (the same shall apply hereinafter). - Though the first addition incident shall not be deemed as the subject of addition, participants will be interviewed at each
# Incidents	Each Addition							
<u>2nd Incident</u>	<u>JPY50K</u>							
<u>3rd Incident On</u>	<u>JPY100K</u>							

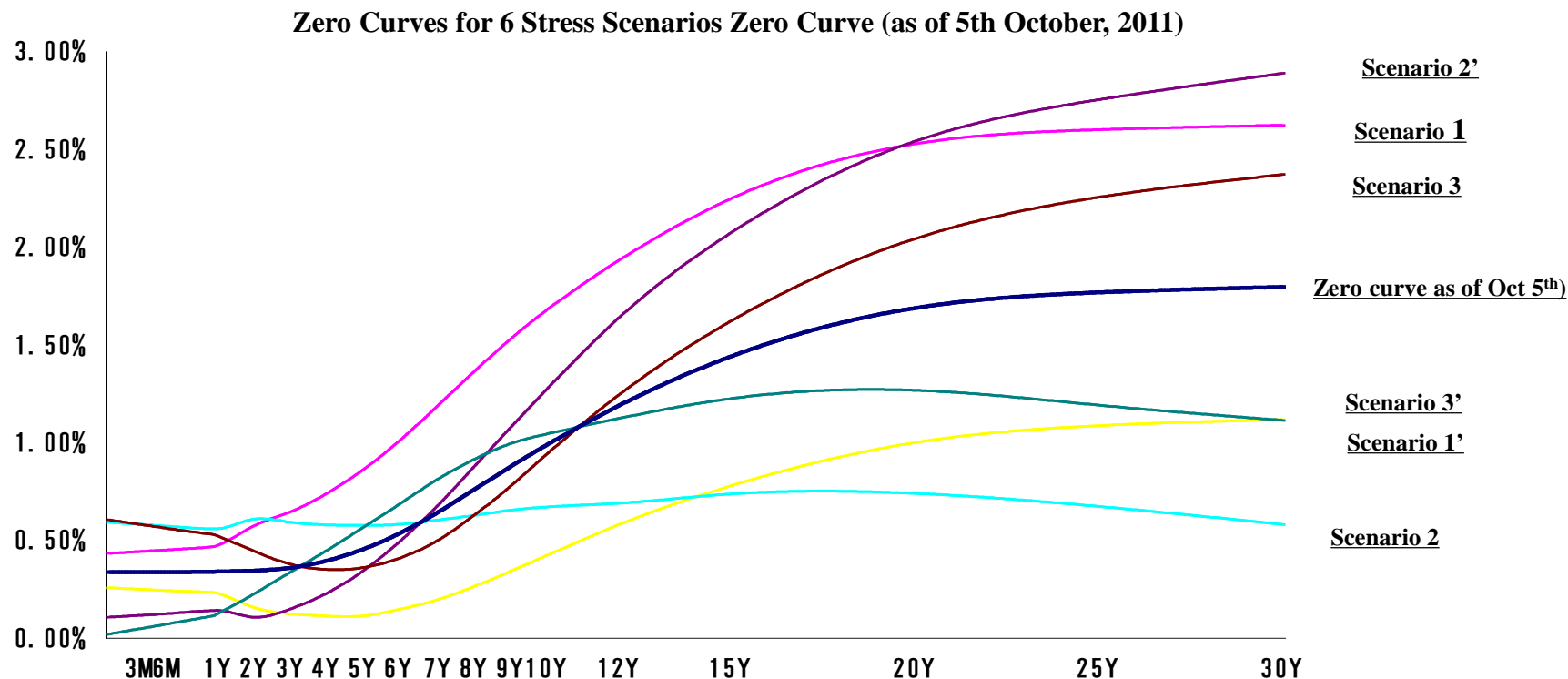
Section #	Description	Remark
		incident occurrence and address depending on the situation based on the Business Rules.
(3) Setting of Dry-Run Period	- (1) and (2) above will not be applied for 9 months after the launch of IRS clearing service, as the period during which to get acquainted with the operations regarding the quotes submission as well as to review the rules for ensuring credibility thereafter.	- The framework will be reviewed if necessary given the status of the business during the Dry Run Period.
5. Quotes for Which Designated Clearing Participant is Required to Submit Quotes	<p>- Designated Clearing Participant shall submit quotes of the following products to construct their curves in addition to OIS curves:</p> <ul style="list-style-type: none"> ✓ Clearing Curves for 1M-Libor Swap ✓ Clearing Curves for 3M-Libor Swap ✓ Clearing Curves for 6M-Libor Swap ✓ Clearing Curves for 6M-Tibor Swap 	<p>- Broker-/Dealers' quotes for 3M / 6M-Libor Swap clearing curves will be basically obtained via information terminals for calculation; in order to obtain quotes submitted by greater diversity of market players, however, quotes submission will be required for Designated Clearing Participant(s).</p> <p>- In order to accumulate historical data, Designated Clearing Participant(s) will also be required to submit quotes for 1M-Libor and 6M-Tibor Swap clearing curves that will be handled in future.</p> <p>- Refer to Annex 4 for grid points required to submit</p> <p>- The aforementioned rules for ensuring credibility will be applied to this section as well (excluding 1M-Libor and 6M-Tibor Swap clearing curves related quotes).</p>

Grid Points for Construction of Discount Curve

Grid Points for Discount Curve (OIS)	
1D	2Y
1W	3Y
2W	4Y
3W	5Y
1M	6Y
2M	7Y
3M	8Y
4M	9Y
5M	10Y
6M	11Y
7M	12Y
8M	15Y
9M	20Y
10M	25Y
11M	30Y
1Y	35Y
15M	40Y
18M	

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Stress Scenarios for Calculation of Clearing Fund



- Extract the characteristics of yield curve fluctuations from historical data and determine the forms of yield curves that will be used for stress scenarios (Note).
- After having determined the form of those yield curves, the rate of change in each yield curve will be defined using the maximum rate of change over the past 5 days with a tenor with the highest liquidity (10 years) as the standard.
- The maximum risk amount when top 2 members defaulted in the 6 stress scenarios above (the total of 2 members' amounts with the maximum required IM amounts deducted from the risk amounts in the stress scenarios) shall be the required amount for clearing fund all members.

(Note) Characteristics of yield curve fluctuations are extracted using the method of principal component analysis based on the market data. Calculation for actual stress scenarios will be done using the latest market data.

Primary items to be resolved at the IRS-class Shareholders Meeting

The following matters need resolutions at the IRS-class Shareholders Meeting as well as resolutions at the General Shareholders Meeting: *1

- Dividends from surplus for IRS-class shares,
- Appointment of Directors from IRS-class shareholders,
- *Changes in the features of IRS-class shares (Change to the Articles of Incorporation),*
- *Reduction of Amounts of Reserves for IRS-class shares,*
- *Reorganization (Share Transfer, etc.) in which IRS-class shares are issued as the consideration,*
- *New Issue of IRS-class shares,*
- *New Issue of subscription warrants for IRS-class shares,*
- *JSCC's acquisition of IRS-class shares,*
- *Consolidation or Splitting of IRS-class shares (Change to the Articles of Incorporation),*
- *Change in number of Directors for IRS-class shares (Change to the Articles of Incorporation),*
- *Change in requirements for Resolution of Board of Directors where Board of Directors makes a resolution that differs from the opinion of the IRS Steering Committee after the reconsideration process (Change to the Articles of Incorporation). *2*

*1 Appointment of Directors from IRS-class shareholders does not need resolution at the general shareholders meeting.

*2 Resolutions of the Board of Directors, when it differs from the opinion of the IRS Steering Committee after the reconsideration process, shall be made by a majority of two thirds or more votes of the directors.

* The resolutions of *italicized* items shall be required special resolutions.

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IRS Steering Committee

Item	Contents	Remarks
1. Name	- IRS Steering Committee	
2. Purpose of the Committee	- The Committee shall be set up to reflect Clearing Participants' and JSCC's IRS-class shareholders' opinions in the administration and operation of JSCC's IRS clearing system.	- The Committee will be established as a standing advisory committee stipulated in the JSCC board of directors' meeting' rules.
3. Issues Subject to the Committee	<p>- In cases where JSCC board of directors or President & CEO intends to make a resolution or a decision about any of the following matters, JSCC shall seek advice of the Committee and shall respect such opinions sufficiently. This shall not apply to resolutions or decisions deemed to have minor importance.</p> <p>(1) Matters with respect to transactions eligible for clearing;</p> <p>(2) Matters with respect to the requirements for IRS Clearing Qualification;</p> <p>(3) Matters with respect to clearing brokerage;</p> <p>(4) Matters with respect to IRS Clearing Funds;</p> <p>(5) Matters with respect to the Renunciation of IRS Clearing Qualification via application by an IRS Clearing Participant;</p> <p>(6) Matters with respect to margin;</p> <p>(7) Matters with respect to the measures in case of an IRS Clearing Participant's default;</p>	<p>- Scope and basic specs of new products etc.</p> <p>- Contents of clearing brokerage contract or changes to such contents, etc.</p> <p>- Methodologies, parameters related to Clearing Fund calculation, etc.</p> <p>- Methodologies, yield curve constructions, parameters related to margin calculation, etc.</p> <p>- How to process defaulter's remaining positions under the clearing participant default management process, etc.</p>

Item	Contents	Remarks
	<p>(8) Matters with respect to the modification of the requirement for obtaining clearing qualification;</p> <p>(9) Matters with respect to the modification of the criteria of measures to be taken on clearing participants;</p> <p>(10) Matters with respect to the designation of change, modification or supplement of the ISDA Master Agreement and the ISDA Definitions;</p> <p>(11) Matters with respect to changes in the handling of measures to be taken in the event of default of an IRS Clearing Participant;</p> <p>(12) Matters with respect to changes in administration of the Default Management Committee such as the authority, organization, or operational procedures or other necessary matters related to the administration of the Default Management Committee;</p> <p>(13) Matters with respect to the date and time and details of Default Management Drills;</p> <p>(14) Matters with respect to the link with LCH;</p> <p>(15) Matters with respect to Clearing Fees;</p> <p>(16) Matters with respect to the IRS clearing system;</p> <p>(17) Matters with respect to the business plans;</p> <p>(18) Matters with respect to dividends to IRS class shareholders;</p> <p>(19) Matters with respect to the candidate for the JSCC board member nominated by IRS Steering Committee;</p> <p>(20) Any other matters deemed necessary from the perspective of operating IRS clearing, such as operational procedures of the Committee.</p>	<p>- The method of appointment of the Default Management Committee, terms of a committee member, etc.</p> <p>- Profit-loss statement, etc. of IRS clearing operation, which are prerequisites for dividends from surplus to IRS class shareholders shall be reported to the Committee.</p> <p>- Includes amendments in IRS Steering Committee Rules (Tentative).</p>

Item	Contents	Remarks
	<ul style="list-style-type: none"> - When the President & CEO receives requests from two or more committee members (if JSCC deems it particularly necessary, one or more committee member(s)), JSCC shall seek the advice of the Committee. - When JSCC intends to make resolutions or decisions without seeking the advice of the Committee for matters deemed less important, the President & CEO shall notify committee members of such resolution or decision before such resolutions or decisions are made. - When the JSCC board of directors shall not adopt the Committee's opinion, the President & CEO shall notify committee members of such resolution or decision and the reason thereof without delay after such resolution or decision. 	<ul style="list-style-type: none"> - Cases where, in response to the latest movement related to IRS trades in other countries, Committee Members find it necessary to discuss such matters on JSCC's IRS clearing. - The JSCC board of directors shall be able not to adopt the Committee's opinion, in cases where the Committee's opinion is deemed to have the possibility of increasing systemic risk, harming sound operations of the CCP or damaging trust in the CCP, or to be a disservice to the public interest and investor protection, etc. In this case, the JSCC board of directors shall ask the Committee to review such opinions, as a general rule. - In case JSCC board of directors resolves to go with the different contents from the opinions shown after the review of the IRS Steering Committee, supporting vote from the two thirds of the directors will be required.

Item	Contents	Remarks
<p>4. Member of the Committee</p> <p>(1) Delegation of the Committee Member</p>	<p>- All Participants who are IRS class shareholders of JSCC and any other IRS class shareholders of JSCC deemed appropriate by the Committee shall be appointed as committee members.</p> <p>- In cases of a committee member's insolvency, violation of the IRS Business Rules or another such case where a committee member is deemed inappropriate for its status, the JSCC board of directors may cancel such member's appointment as a committee member.</p>	<p>- By participation of IRS class shareholders of JSCC deemed appropriate by the Committee as committee members, such IRS class shareholders' opinions are expected to reflect the Committee's decision. For the time being, Tokyo Stock Exchange, Inc. is assumed to be such a participant.</p> <p>- JSCC shall appoint, as a committee member, the Clearing Participant which belongs to the corporate group that has IRS class shareholder. If multiple Clearing Participants belong to such corporate group JSCC shall appoint one Clearing Participant as a committee member in accordance with designation by such Clearing Participants.</p> <p>- Participants which belong to the corporate groups that do not have a IRS shareholder may participate in the Committee meetings as Observers.</p> <p>- In cases where the circumstances which led to a committee member's dismissal have been resolved, JSCC shall appoint the relevant</p>

Item	Contents	Remarks
		<p>committee member as a committee member again.</p> <p>- Requirements related to the cancellation of the appointment of the committee member will be continuously discussed.</p>
(2) Election of Chairperson	<p>- There shall be a chairperson in the Committee.</p> <p>- The Chairperson is elected from among the committee members.</p>	
(3) Term of Chairpersonship	<p>- The term of the Chairperson shall be one year.</p> <p>- In cases where the Chairperson is removed from the committee, a new Chairperson shall be appointed.</p>	
(4) Notification, etc. of Representative of Committee Member	<p>- Each committee member shall specify one or more persons out of the directors or employees of such committee member or other companies within the same Corporate Group who have expertise in the trading practices of IRS Transactions to act as a representative or agent of such committee member with respect to the duties of such committee (hereinafter referred to as a “Representative of a Committee Member”).</p>	
(5) Obligations of Committee Members	<p>- Committee members and Representatives of Committee Members (including those who were previously Committee members or Representatives of Committee Members) shall keep confidential information obtained in the course of their duties and may not divulge to a third party or use for any other purposes, without any justifiable reason.</p>	
5. Holding Meetings	<p>- Meetings of the Committee shall be convened based on resolutions of the President & CEO, provided that this shall not prohibit convening those based on resolutions of the JSCC board of directors.</p> <p>- In cases where a Representative of a Committee Member is unable to attend a committee meeting due to unavoidable reasons, an alternative person affiliated with such Participant or other</p>	

Item	Contents	Remarks
	<p>companies within the same Corporate Group may attend the committee meeting.</p> <ul style="list-style-type: none"> - Meetings of the Committee may be held via documents as an alternative to holding meetings. - Meetings of the Committee shall be held at least once per quarter (including via documents). 	<ul style="list-style-type: none"> - The President & CEO, where deemed necessary, may hold meetings of the Committee by conference call etc. or may allow a committee member to attend a committee meeting by phone, etc. - Meetings of the Committee are expected to be held more frequently in the initial stage of JSCC's IRS clearing operations._
6. Method of Resolution	<ul style="list-style-type: none"> - A committee meeting may not be held unless at least half of the committee members (excluding committee members who have significant interests regarding the agenda) are in attendance. - The chairperson shall seek to build consensus among all committee members, and the deliberation items in a committee meeting shall be resolved by a majority vote of committee members in attendance. - A committee member may not participate in deliberations of an item in which such committee member has significant interests. 	
7. Report to JSCC Board of Directors	<ul style="list-style-type: none"> - The chairperson shall report determinations or other details of deliberations in the Committee with respect to advisory matters to the JSCC board of directors. 	
8. Secretariat	<ul style="list-style-type: none"> - The secretariat of the Committee shall be JSCC. - The secretariat shall be engaged in the support of committee members, administrative communication, providing the assistance for the administration of meetings, the preservation of records and other operational works for the Committee. 	
9. Delegation	<ul style="list-style-type: none"> - Matters necessary for administration of the Committee other than what are prescribed in JSCC rules shall be prescribed by the Committee on each applicable occasion. 	

Fees for IRS Clearing

Item	Content	Remark
(1) Basic Fee	- JPY 5 million per month per 1 IRS Clearing Participant	<ul style="list-style-type: none"> - When any participant has become Designated Clearing Participant (Refer to Annex 5), the discount on the basic fee will be JPY200K per month. - When quotes submitted by Clearing Participant significantly diverge from the average value calculated or when quotes are not submitted, the basic clearing fee will be added depending on a number of incidents during certain period (Refer to Annex 5).
(2) Clearing Fee		
a. General Fee	<ul style="list-style-type: none"> - JPY 8,000 per new IRS trade subject to the obligation bearing - JPY 700 per outstanding cleared IRS trade on a monthly basis 	<ul style="list-style-type: none"> - Clearing Fee depending on a number of the new IRS transactions subject to the obligation bearing shall be calculated monthly and charged on certain day of every month. - Clearing Fee depending on a number of the outstanding cleared IRS transactions shall be calculated on certain day of every month and charged (hereinafter same as in b.)
b. Fee for IRS Class Shareholder	<ul style="list-style-type: none"> - Regardless of a., if IRS Clearing Participant is IRS Class Shareholder, Clearing Fee shall be applied as followings: <ul style="list-style-type: none"> a. New IRS trade subject to the obligation bearing 	<ul style="list-style-type: none"> - For the clearing participant in the corporate group that has an IRS class shareholder, the fee rate for an IRS class shareholder will be applied (hereinafter the same).

Item	Content	Remark
	<p>(a) 2,000 transactions or below per year JPY 5,000 per transaction</p> <p>(b) above 2,000 transactions but 10,000 transactions or below per year JPY 1,000 per transaction</p> <p>(c) above 10,000 transactions per year JPY 400 per transaction</p> <p>b. Outstanding cleared IRS trade</p> <p>(a) 8,000 transactions or below JPY 450 per transaction per month</p> <p>(b) above 8,000 transactions but 40,000 transactions or below JPY 100 per transaction per month</p> <p>(c) above 40,000 transactions JPY 35 per transaction per month</p>	
c. Handling of Affiliate Clearing	- Clearing Fee for Affiliate Clearing shall be calculated per Clearing Entruster (legal entity), separated from proprietary position of an entrusted IRS Clearing Participant, applying the same Fee rate as such IRS Clearing Participant.	- An Entrusted IRS Clearing Participant is not charged additional Basic Fee for Affiliate Clearing.
(3) Other Fees	<p>- Fee for obtaining of Clearing Qualification JPY 1 mil. for obtaining of IRS Clearing Qualification</p> <p>- Fee for de-clear JPY 1,000 per transaction</p>	- Fee for obtaining of Clearing Qualification will be waived for obtaining such qualification during 6 months after the initial launch of the service.

Item	Content	Remark
<p>(4) Upper limit on the Fees for IRS Class Shareholder</p> <p>I. Upper limit on a sum of fees for Proprietary trade</p> <p>II. Upper limit on Clearing Fees regarding Affiliate Clearing</p>	<p>- Collateral charge The rate will be set at 0bp for a while.</p> <p>- When Clearing Participant is IRS Class Shareholders the upper limit on a sum of Basic Fee, Clearing Fee and other Fees (exclude Fees regarding obtaining of Clearing Qualification and Affiliate Clearing fees).</p> <p>- When an entrusted Clearing Participant is IRS Class Shareholder Clearing Fees regarding Affiliate Clearing of the relevant Clearing Participant is capped to JPY 40 million per year per Clearing Entruster (legal entity).</p>	<p>- Designated Clearing Participant regarding the Quote Submission receive discount on the yearly upper limit equivalent to discount on Basic Fee (Maximum JPY 2.4 million per year).</p> <p>- For Clearing Participant which is additionally charged for Basic Fee regarding the Quote Submission, the yearly upper limit increases by the relevant additional amount.</p> <p>- The yearly upper limit will be applied during the period April to March of the following year (The same apply in II.).</p>

IRS Clearing System: Issues to Be Addressed after the Launch of the Service

Items listed in “Outline of Interest Rate Swaps Clearing”	Issues to be Discussed	Direction
1. Eligible Trades for Clearing	<ul style="list-style-type: none"> Handling of Tibor 	<ul style="list-style-type: none"> Points to be discussed will be determined in terms of risk management and the discussion will be continued so that the clearing of Tibor swap can be started about a half year after the launch of the service.
	<ul style="list-style-type: none"> Handling of 1M Libor 	<ul style="list-style-type: none"> Points to be discussed will be determined in terms of risk management and the discussion will be continued so that the clearing of 1M Libor swap can be started about a half year after the launch of the service. In case there are any products other than 1M Libor Swap that have to be considered, the possibility of handling those products at CCP will also be discussed on this occasion.
	<ul style="list-style-type: none"> Handling of foreign currency-denominated trade 	<ul style="list-style-type: none"> The discussion on this will start immediately after the launch of the IRS clearing service, and JSCC will launch clearing of foreign currency-denominated considering the participants’ readiness, etc.
4. Clearing Brokerage	<ul style="list-style-type: none"> Expansion of the scope of clients who can entrust clearing brokerage of securities to Non-Affiliate companies 	<ul style="list-style-type: none"> The discussion on this will start immediately after the launch of the IRS clearing service and will be continued so that the Non-Affiliate Clearing can be started about a year later considering the participants’ readiness, etc.
13. Method of Fund	<ul style="list-style-type: none"> Introduction of the PPS (Protected 	<ul style="list-style-type: none"> The discussion on this will start immediately after the launch of the IRS clearing service,

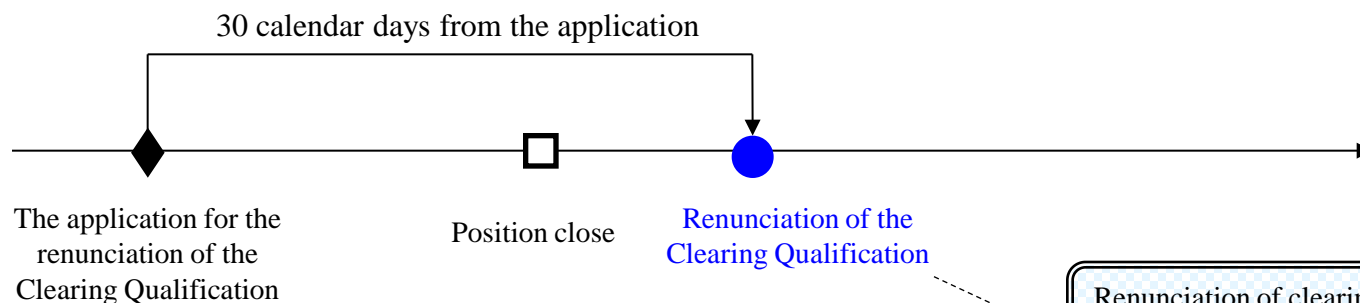
IRS Clearing System: Issues to Be Addressed after the Launch of the Service

Items listed in “Outline of Interest Rate Swaps Clearing”	Issues to be Discussed	Direction
Settlement 14. Deposit and Refund of Collateral	Payments System) scheme for the deposit of the Initial Margin etc. by cash.	and PPS will be introduced considering the responses by the fund settlement bank. <ul style="list-style-type: none">In parallel, JSCC will sound the fund settlement banks out to check its response on the arrangement to make OD (overdraft) limit available to participants, and such arrangement will be introduced to the participants depending on the situation.
16. Loss Compensation Scheme	<ul style="list-style-type: none">Introduction of the framework for preferential use of clearing funds, etc. depending on the bid price	<ul style="list-style-type: none">The discussion on this will continue taking into account the proposals that have been presented at past WGs or situations of discussions at other CCPs.
17. Scheme for Managing Settlement Failure by the Clearing Participant	<ul style="list-style-type: none">Introduction of Modified Dutch Auction related to the defaulting clearing participant’s portfolio	<ul style="list-style-type: none">The discussion on this will continue keeping an eye on handling at other clearing houses.
Others	<ul style="list-style-type: none">Introduction of Compression	<ul style="list-style-type: none">The discussion will continue, after the launch of the service, keeping an eye on the trend in # Trades Cleared.

Timing of Effectiveness of the Renunciation of the Clearing Qualification

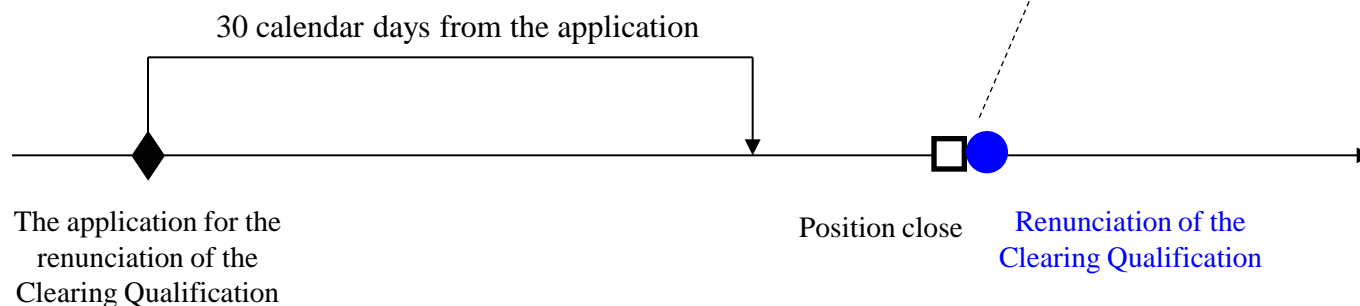
1. In case the default of a participant does not occur

---Case1



Renunciation of clearing qualification shall take effect after 30 calendar days since the day of application or at the close of Clearing Participant's position, whichever later.

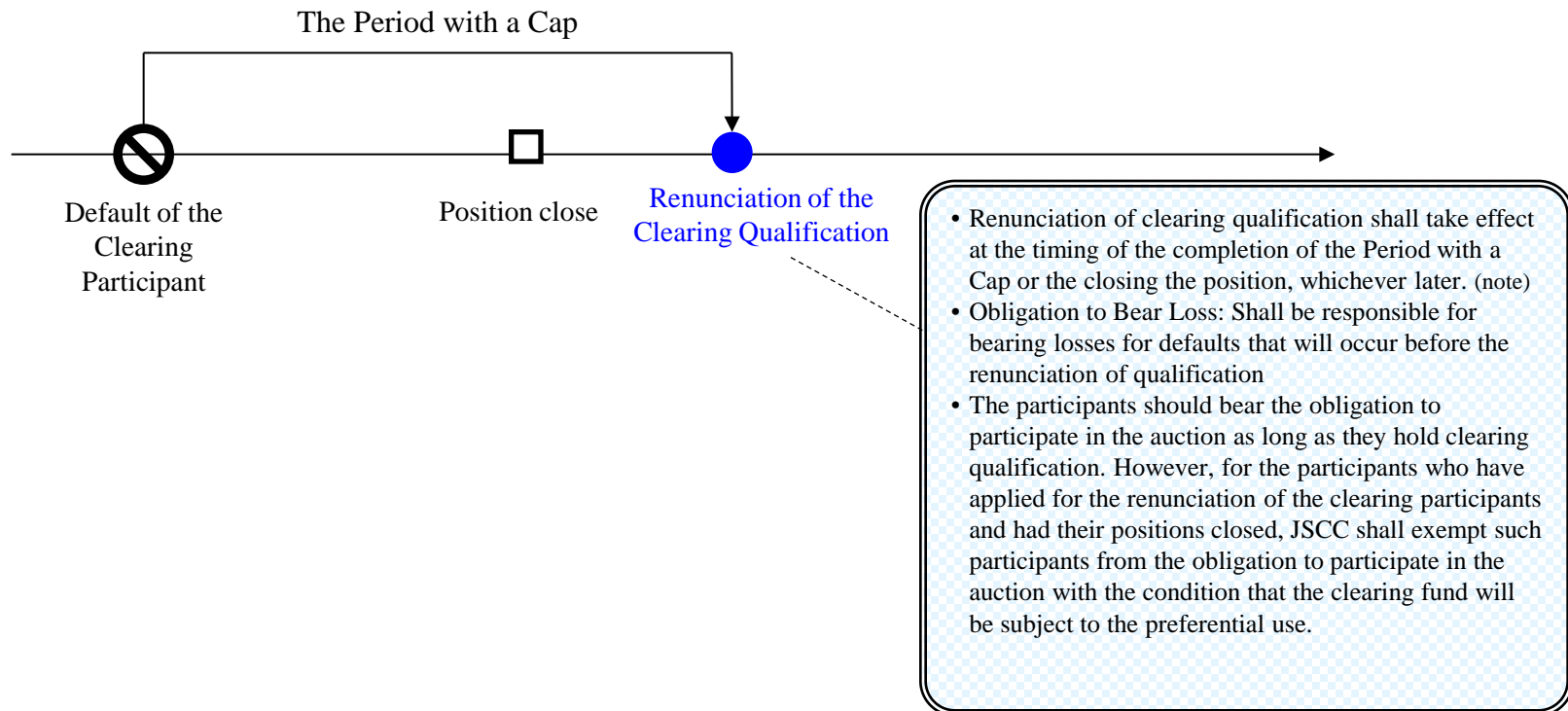
---Case2



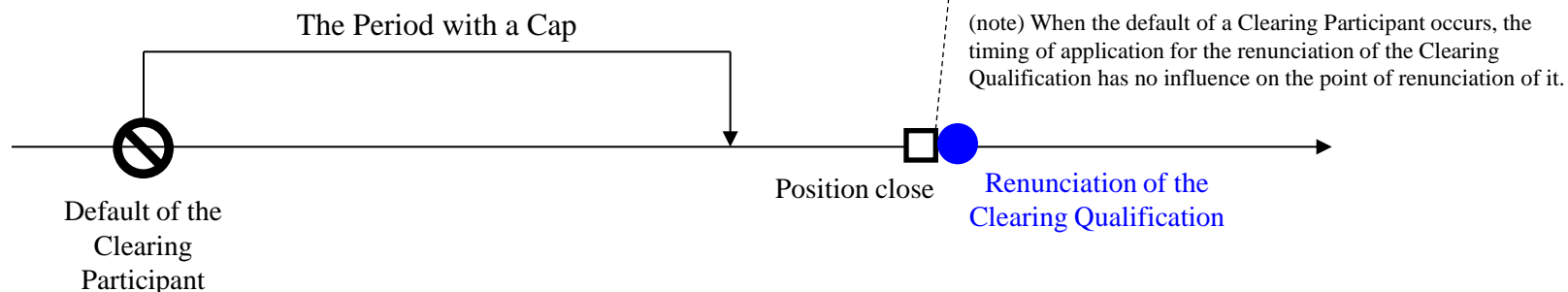
2. In case the default of a participant occurs

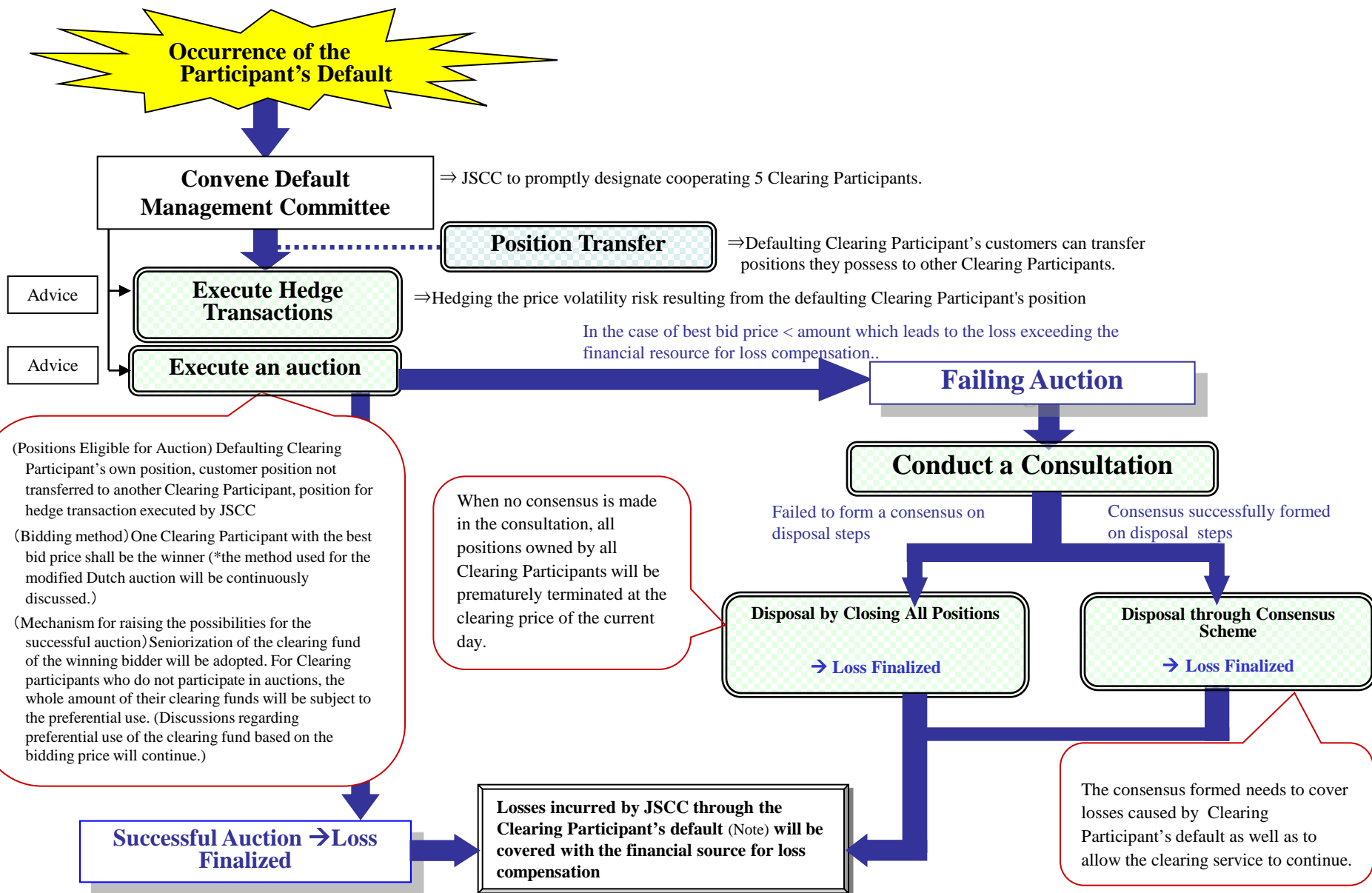
(The application for the renunciation of the Clearing Qualification is made during the Period with A Cap / The default occurs before the day on which 30 calendar days have passed since the day of application or at the close of Clearing Participant's position, whichever later)

---Case3



---Case4





(Note) Loss, etc. as a result of changes in NPV form the occurrence of default to disposal of positions through the successful auction/close-out of all positions.