

Outline of Credit Default Swaps Clearing (Revised Edition)

In response to the recent financial crisis, global efforts toward the use of central counterparty have been being made with respect to OTC derivatives trades. In Japan, the Financial Instruments and Exchange Act was amended on May 19, 2010 so that the use of domestic central clearing institution is expected to be mandated by November 2012 for OTC derivatives trades.

Under such circumstances, JSCC, based on discussions of the "Working Group on Clearing Operations for OTC Derivatives Trades" set up on May 22, 2009, published the "Outline of OTC Derivatives Clearing Operations and Relevant Issues" on June 30, 2010. After that, JSCC has discussed detailed operational procedures and other related matters regarding CDS clearing services with market participants at the series of meetings of the working group's three sub-committees (operation, risk management, and legal issue).

Today, JSCC announced the "Outline of Credit Default Swaps Clearing (Revised Edition)", which is approved by the board meeting of JSCC, as follows:

We will continue preparation for the CDS clearing service for the target launch date of July 19, 2011*.

*Launch of the CDS clearing is subject to the approval of JSCC's Business Rules by the Financial Services Agency Commissioner.

Contents of Outline of Credit Default Swaps Clearing (Revised Edition)

<Reference Translation>		
1. Eligible Trades for Clearing	• • •	1
2. Clearing Participant System		
(1) CDS Clearing Qualification	• • •	1
(2) Requirements for Obtaining/Maintaining CDS Clearing Qualification	• • •	2
(3) Obligation of CDS Clearing Participants	• • •	5
(4) Forfeiture of CDS Clearing Qualification	• • •	5
(5) Measures, etc. for CDS Clearing Participants	• • •	6
3. Bearing Obligations		
(1) Legal Framework of Bearing Obligations	• • •	6
(2) Processing Schedule for Bearing Obligations	• • •	7
(3) Point When Bearing Obligations is Formed	• • •	7
(4) Application for Bearing Obligations	• • •	8
(5) Requirements for Bearing Obligations	• • •	8
4. Margins		
(1) Initial Margin		
1) Basic Policy	• • •	9
2) Calculation Method	• • •	9
3) Deadline for Deposit	• • •	10
(2) Variation Margin		
1) Basic Policy	• • •	10
2) Settlement Price	• • •	10
3) Deadline for Deposit	• • •	11
(3) Intra-Day Initial Margin Call	• • •	11
(4) Extra Initial Margin		
1) Extra Initial Margin in Accordance with Positions	• • •	11
2) Concentration Charge	• • •	12
5. Clearing Participant Account	• • •	12
6. Brokerage for Clearing of Securities		
(1) Process Related to Brokerage for Clearing of Securities	• • •	13
(2) Separate Management of Clients' Position	• • •	13
(3) Deposit and Separate Management of Clients' Margin	• • •	14
7. Fixed- Payment (Transfer of Premium)	• • •	14
8. Method of Settlement		
(1) Settlement Method	• • •	14
(2) Netting	• • •	14
9. Clearing Funds		
(1) Purpose of Clearing Funds	• • •	14
(2) Required Amount of Clearing Funds	• • •	15
(3) Deadline for Deposit	• • •	16
10. Deposit and Return of Collateral		
(1) Type of Collateral	• • •	16
(2) Collateral in Cash	• • •	16
(3) Interest on Collateral in Cash	• • •	16
(4) Securities in Lieu of Cash	• • •	16
11. Scheme for Managing Clearing Participant's Default	• • •	17
12. Framework of Loss Compensation Scheme		
(1) Financial Resources for Loss Compensation	• • •	17
(2) Handling of Compensation by Non-Defaulting Clearing Participants' Clearing Fund	• • •	18
(3) Handling of Special Charge Collected from Non-Defaulting Participants	• • •	18
(4) Handling of Compensation by Recipient Clearing Participants of Variation Margin, etc.	• • •	20
(5) Handling of Failure to Deposit the Special Charge	• • •	21
(6) Handling the Forfeiture of the Clearing Qualification	• • •	22
(7) Handling of the credit obligation collected from the Defaulting Clearing Participant	• • •	22
13. Variation Payment(Credit Event Settlement)		
(1) Determination of CE		
1) Bankruptcy, Failure to Pay	• • •	23
2) Restructuring	• • •	23
(2) Method of CE Settlement	• • •	23
(3) Handling of Margin When CE Occurs	• • •	25
(4) Handling of Fixed Payment When CE Occurs	• • •	25
14. Early Termination	• • •	25
15. Clearing Fee, etc.		
(1) Basic Concept	• • •	26
(2) Fee Structure		
1) Clearing Fee	• • •	26
2) Other Fees	• • •	26
Annex 1 Regarding CDS Settlement Price Calculation Method and Measures to Ensure its Reliability	• • •	27
Annex 2 Scheme for Managing Clearing Participant's Default	• • •	33
Annex 3 Physical Settlement Scheme	• • •	40
Annex 4 Clearing Fee Schedule for CDS Trades	• • •	42

Outline of Credit Default Swaps Clearing (Revised Edition)

As of April 7, 2011

Item	Details	Remarks
<p>1. Eligible Trades for Clearing</p>	<ul style="list-style-type: none"> - To be eligible for clearing, Credit Default Swaps (CDS) trades must meet all of the following requirements; <ul style="list-style-type: none"> 1) A trade which is executed in accordance with ISDA* Master Agreement and ISDA Credit Derivatives Definitions. *International Swaps and Derivatives Association, Inc. 2) A trade which is matched by methods prescribed by the Japan Securities Clearing Corporation (hereinafter referred to as the “JSCC”). 3) A trade which is conducted between clearing participants of JSCC, and they agree to use JSCC services. 4) A trade which is a standard iTraxx Japan index trade. 5) The Notional Amount is no more than JPY 100 billion. 6) A trade which meets any other requirements prescribed by JSCC. - Outstanding trades which satisfy the above requirements shall be eligible for clearing. 	<ul style="list-style-type: none"> - The possible expansion of the range of the products to be cleared will be considered later, based on the needs of users. - Specifically, a trade shall be matched via Deriv/SERV (DS Match) and recorded in the Trade Information Warehouse (hereinafter referred to as “TIW”). - Regarding Deriv/SERV (DS Match) and TIW, it is assumed that consent can be obtained from The Depository Trust & Clearing Corporation (DTCC). - Such trade includes those based on the brokerage for clearing of securities. - The index shall be all series of iTraxx Japan 50 (5Y).
<p>2. Clearing Participant System</p> <p>1) CDS Clearing Qualification</p>	<ul style="list-style-type: none"> - Clearing Qualification for CDS (hereinafter referred to as “CDS Clearing Qualification”) shall be newly 	<ul style="list-style-type: none"> - CDS Clearing Qualification shall be treated as a different qualification from existing JSCC’s Clearing Qualifications (those for cash

Item	Details	Remarks
(2) Requirements for Obtaining/ Maintaining CDS Clearing Qualification	<p>established. Participants who have obtained such qualification shall be regarded as Clearing Participants for CDS (hereinafter referred to as “CDS Clearing Participant”).</p> <p>- Applicants who meet all of the following requirements can obtain CDS Clearing Qualification due approval by JSCC.</p> <p>1) An applicant company which is a Financial Instruments Business Operator or a Registered Financial Institution.</p> <p>2) Financial conditions shall meet the provided criteria and a stable capacity to earn profits shall be expected; provided, however, that in the case an affiliate company (a parent company, etc.) of a participant which meets the criteria of net capital and creditworthiness guarantees the clearing participant, the criteria of net capital shall be no less than JPY 50 billion and the criteria of creditworthiness shall not apply with regard to such participant, and in cases where such affiliate company meets the criteria of net capital regulation ratio (capital adequacy 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 net capital regulation ratio (capital adequacy ratio) shall not apply with regard to such participant.</p>	<p>products, individual equity options, JGB futures/options and Index futures/options).</p> <p>- No classification by category of Principal/Agency Clearing Qualification shall apply.</p> <p>- Foreign corporations which have branches in Japan are also included. However, for a while, CDS Clearing Qualification shall not be granted to U.S. corporations. Once the new regulatory environment under the Dodd-Frank law becomes clear, granting of the Qualification will be considered.</p> <p>- Judgment regarding the criteria of creditworthiness will be made by considering various factors. One of those factors is that any one of the ratings of a Clearing Participant is to be equivalent of an A rating or higher (In cases where such Clearing Participant doesn't obtain a rating, a rating of the parent company of such Clearing Participant is to be equivalent of an A⁺ rating or higher).</p> <p>- Ratings shall be those concerning the ability to discharge long-term debt as assigned by any of the following; Rating & Investment Information, Inc., Japan Credit Rating Agency, Ltd., Moody's Investors Service, Inc., Standard & Poor's Ratings Services, or Fitch Ratings Ltd. (excluding unsolicited ratings).</p> <p>- A parent company refers to a company which controls the decision of the financial and business policy of other companies, and includes the parent company of such companies.</p> <p>- The guarantee provided by an affiliate company is required to cover the participant's entire obligation to JSCC related to CDS Clearing Qualification and losses incurred by JSCC in association with default procedures regarding a Clearing Participant who receives such guarantee and a credit line may not be set to such guarantee.</p>

Item	Details	Remarks																		
	<p data-bbox="495 204 1111 233">[Criteria for Financial Instruments Business Operators]</p> <table border="1" data-bbox="521 236 1075 592"> <thead> <tr> <th data-bbox="521 236 799 276">Item</th> <th data-bbox="799 236 1075 276">Criteria</th> </tr> </thead> <tbody> <tr> <td data-bbox="521 276 799 357">Net Capital (Note 1)</td> <td data-bbox="799 276 1075 357">No less than JPY 100 billion</td> </tr> <tr> <td data-bbox="521 357 799 475">Net Capital Regulation Ratio (Note 2,3)</td> <td data-bbox="799 357 1075 475">Over 200%</td> </tr> <tr> <td data-bbox="521 475 799 592">Creditworthiness</td> <td data-bbox="799 475 1075 592">Having a certain level of creditworthiness</td> </tr> </tbody> </table> <p data-bbox="495 600 1010 628">[Criteria for Registered Financial Institutions]</p> <table border="1" data-bbox="521 632 1075 1027"> <thead> <tr> <th data-bbox="521 632 799 671">Item</th> <th data-bbox="799 632 1075 671">Criteria</th> </tr> </thead> <tbody> <tr> <td data-bbox="521 671 799 753">Net Capital (Note 1)</td> <td data-bbox="799 671 1075 753">No less than JPY 100 billion</td> </tr> <tr> <td data-bbox="521 753 799 871">Capital Adequacy Ratio (Note 3,4,5)</td> <td data-bbox="799 753 1075 871">International: Over 8% Domestic: Over 4%</td> </tr> <tr> <td data-bbox="521 871 799 952">Solvency Margin Ratio (Note 3,6)</td> <td data-bbox="799 871 1075 952">Over 400%</td> </tr> <tr> <td data-bbox="521 952 799 1027">Creditworthiness</td> <td data-bbox="799 952 1075 1027">Having a certain level of creditworthiness</td> </tr> </tbody> </table> <p data-bbox="506 1035 1115 1219">(Note 1) In the case of Financial Instruments Business Operators, the amount of net capital in net capital regulation ratio, and in the case of Registered Financial Institutions, the amount of net capital under regulations regarding capital adequacy ratio.</p> <p data-bbox="495 1230 1111 1374">(Note 2) In the case of falling under so called “downstream regulation”, non-consolidated net capital regulation ratio, and consolidated net capital regulation ratio.</p>	Item	Criteria	Net Capital (Note 1)	No less than JPY 100 billion	Net Capital Regulation Ratio (Note 2,3)	Over 200%	Creditworthiness	Having a certain level of creditworthiness	Item	Criteria	Net Capital (Note 1)	No less than JPY 100 billion	Capital Adequacy Ratio (Note 3,4,5)	International: Over 8% Domestic: Over 4%	Solvency Margin Ratio (Note 3,6)	Over 400%	Creditworthiness	Having a certain level of creditworthiness	<ul style="list-style-type: none"> <li data-bbox="1144 169 1955 320">- In calculating the net capital criteria for an affiliate company which provides guarantee to a participant, the following formula is applied; Net capital criteria x the number of participants guaranteed by an affiliate company = Net capital criteria for such affiliate company <li data-bbox="1144 328 1955 432">(Note) If the guaranteeing affiliate company is a participant, one shall be added to “the number of participants guaranteed by an affiliate company”. <li data-bbox="1144 440 1955 584">- An affiliate company shall refer to a parent company or a subsidiary of a parent company (a company whose financial and business decisions are controlled by the other companies and includes the subsidiary of such company) <li data-bbox="1144 592 1955 855">- “Cases where JSCC deems it necessary considering the creditworthiness of a Clearing Participant” in (Note 3) shall be determined considering several factors. One of these factors is that the worst rating of a Clearing Participant is worse than the equivalent of an A rating (In cases where such Clearing Participant does not obtain a rating, the worst rating of the parent company of such Clearing Participant is worse than the equivalent of an A⁺ rating).
Item	Criteria																			
Net Capital (Note 1)	No less than JPY 100 billion																			
Net Capital Regulation Ratio (Note 2,3)	Over 200%																			
Creditworthiness	Having a certain level of creditworthiness																			
Item	Criteria																			
Net Capital (Note 1)	No less than JPY 100 billion																			
Capital Adequacy Ratio (Note 3,4,5)	International: Over 8% Domestic: Over 4%																			
Solvency Margin Ratio (Note 3,6)	Over 400%																			
Creditworthiness	Having a certain level of creditworthiness																			

Item	Details	Remarks
	<p>(Note 3) In cases where JSCC deems it necessary considering the creditworthiness of a Clearing Participant, 1.25 times value shall be applied as the base value.</p> <p>(Note 4) Applies to Registered Financial Institutions which are not insurance companies.</p> <p>(Note 5) International criteria apply to financial institutions which have business locations overseas. Domestic criteria apply to financial institutions which have no business locations overseas.</p> <p>(Note 6) Applies to insurance companies.</p> <p>3) An applicant company which has an appropriate management and business-execution structure. One condition of 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 which includes the participant should retain its CDS portfolio to be no less than JPY 500 billion. In cases where the amount of CDS portfolio of a company group which includes the participant is calculated, the criteria (JPY 500 billion) is multiplied by the number of clearing participant(s) within the company group.</p> <p>- Requirements for maintaining CDS Clearing Qualifications shall be the same as the above; provided, however, that with regard to the criteria of the creditworthiness, in cases where JSCC deems it necessary considering the creditworthiness of a Clearing Participant, it shall take measures to increase the initial margin and to nullify the CDS Clearing Qualifications depending on the creditworthiness of such Clearing</p>	<p>- It shall be accepted that an applicant constitutes an appropriate business-execution structure which enables to participate in the settlement process for defaulting Clearing Participant's portfolio by constituting necessary cooperation relationship with another body such as an overseas affiliate company, etc. which has trading functionality.</p> <p>- In taking measures to increase initial margin and to nullify the CDS Clearing Qualification, JSCC will consider several factors based on the following two criteria:</p> <p>1) In cases where both the worst rating and net capital regulation ratio (capital adequacy ratio) have fallen below a certain level</p> <p>(i) A- rating and net capital regulation ratio of less than 250% (capital adequacy ratio of less than 10 %): Initial Margin +10%</p> <p>(ii) BBB+ rating and net capital regulation ratio of less than 250%</p>

Item	Details	Remarks
(3) Obligation of CDS Clearing Participants	Participant.	<p>(capital adequacy ratio of less than 10 %) : Initial Margin +100%</p> <p>(iii) BBB rating and net capital regulation ratio of less than 250% (capital adequacy ratio of less than 10 %) : Initial Margin +150%</p> <p>(iv) Less than BBB rating and net capital regulation ratio of less than 250% (capital adequacy ratio of less than 10 %) : Nullification of CDS Clearing Qualification (Initial Margin +150% shall be applied until loss of qualification)</p> <p>2) In cases where all ratings have fallen below a certain level</p> <p>(i) A- rating: Initial Margin +10%</p> <p>(ii) BBB+ rating: Initial Margin +100%</p> <p>(iii) BBB rating: Initial Margin +150%</p> <p>(iv) Less than BBB rating: Nullification of CDS Clearing Qualification (Initial Margin +150% shall be applied until loss of qualification)</p>
	<p>- CDS Clearing Participants shall be required to undertake similar obligations with current Clearing Participants, such as obligations to make notifications or reports.</p> <p>- In the case of a CDS Clearing Participant's default, the other CDS Clearing Participants are required to participate in the procedures for the settlement of the defaulting Clearing Participant's portfolio.</p>	<p>- As for the procedures for the settlement of the defaulting Clearing Participant's portfolio, refer to Item 11 and Annex 2.</p>
(4) Forfeiture of CDS Clearing Qualification	<p>- In cases where a Clearing Participant forfeits its clearing qualification, it shall apply for the forfeiture of CDS Clearing Qualification with JSCC.</p> <p>- The approval regarding the application for forfeiture of CDS Clearing Qualification and the forfeiture of such Qualification shall be carried out once JSCC has confirmed that positions of a Clearing Participant who applied for such forfeiture are resolved after a certain</p>	<p>- JSCC will publish such application for forfeiture.</p> <p>- In principle, the public notice period shall be the period until the arrival of the first date of obligation bearing regarding trades executed on the date of publication of the application for such forfeiture.</p>

Item	Details	Remarks
(5) Measures, etc. for CDS Clearing Participants	<p>public notice period.</p> <ul style="list-style-type: none"> - In principle, a Clearing Participant shall discharge all obligations it owes to JSCC on the date of CDS Clearing Qualification forfeiture (In cases where amounts such as Special Charge can not be fixed under the Scheme for Procedures in case of a Clearing Participant's Default (see Item 12.), the clearing participant shall provide the approximate amount with JSCC, and once such amounts are fixed, the difference shall be received/paid.) - JSCC shall be able to take the following measures against Clearing Participants. <ul style="list-style-type: none"> (i) Suspension of Bearing Obligations, cancellation 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, suspension of Bearing Obligations. (iii) Regulatory measures related to collateral (the decrease in hair cut rates applied to securities in lieu of cash). (iv) Request for documents or inspection, etc. when deemed necessary for clearing operations. 	<ul style="list-style-type: none"> - In principle, the approval regarding the application for forfeiture of CDS Clearing Qualification and the forfeiture of such Qualification shall occur on the same day. - The system shall be the same as the existing JSCC clearing system. - In cases where JSCC takes the measure (i), JSCC shall provide notices to other Clearing Participants or announce publicly. - In cases where unsettled contracts could not be resolved within a certain period in the Clearing Qualification forfeiture procedures, such position shall be put up for auction. - The specifications for increasing the collateral amount is as described in Item 4(4).
3. Bearing Obligations (1) Legal Framework of Bearing Obligations	<ul style="list-style-type: none"> - JSCC shall bear obligations for eligible trades on behalf of clearing participants as provided below. <ul style="list-style-type: none"> (i) A new trade (relation of claims and obligations) is formed between Clearing Participants which are both parties to the original trade and JSCC and, based on 	<ul style="list-style-type: none"> - The ISDA Master Agreement and ISDA Credit Derivatives Definitions shall apply to the new trades which are formed between Clearing Participants and JSCC.

Item	Details	Remarks
(2) Processing Schedule for Bearing Obligations	<p>the condition thereof, the original trade between such Clearing Participants is eliminated by mutual agreement.</p> <p>(ii) The economic conditions of the new trades formed between JSCC and Clearing Participants shall be in accordance to those of the eliminated trade.</p> <p>- Bearing Obligations by JSCC shall be processed subject to the schedule prescribed by JSCC in the term from every Tuesday to the next Monday (hereinafter referred to as "Processing Term for Bearing Obligations").</p> <p>- As a general rule, the schedule prescribed by JSCC shall be as follows.</p> <p>(i) The time prescribed by JSCC in the second business day (based on Japanese business days) of the days during Processing Term for Bearing Obligations shall be the deadline for application of Bearing Obligations.</p> <p>(ii) The business day (based on Japanese business days) following the deadline as described in (i) shall be the day of Bearing Obligations, and the point prescribed in item (3) shall be the point of formation of Bearing Obligations; provided, however, that if such day is the day of paying Fixed Payment or the preceding business day (based on Japanese business days), the business day (based on Japanese business days) following the day of paying Fixed Payment shall be the day of Bearing Obligations, and the point prescribed in item (3) shall be the point of formation of Bearing Obligations.</p>	<p>- The economic conditions of the eliminated trade mean conditions such as Notional Amount, term of trade and reference entity.</p> <p>- JSCC shall notify Clearing Participants of such schedule.</p> <p>- In cases where the Processing Term for Bearing Obligations do not have the necessary business days for the process of Bearing Obligation due to reasons such as holidays, Bearing Obligations shall not be processed during relevant Processing Term for Bearing Obligations.</p> <p>- In the future, JSCC will examine a method of Bearing Obligations earlier.</p>
(3) Point When Bearing Obligations is Formed	<p>- Obligations shall be borne by JSCC at the point when JSCC confirms that trades meet the requirements shown</p>	<p>- Until JSCC confirms and bears the obligation, the trade will remain between the two parties.</p>

Item	Details	Remarks
(4) Application for Bearing Obligations	<p>in item (5) based on information obtained via TIW.</p> <ul style="list-style-type: none"> - Confirmation of the eligibility of a trade and Bearing Obligations shall be conducted at 4:00 PM. - Application for Bearing Obligations shall be made to JSCC by inputting the information related to the application for bearing obligations on TIW by the deadline described in item (2). - Application for Bearing Obligations shall be made by both parties to the trade for which the application for Bearing Obligations is being made. 	<ul style="list-style-type: none"> - Trades whose eligibility cannot be confirmed by 4:00 PM shall be processed in the next Processing Term for Bearing Obligations.
(5) Requirements for Bearing Obligations	<ul style="list-style-type: none"> - When all of the following requirements are met, Bearing Obligations will be conducted. <ol style="list-style-type: none"> 1) A trade meets the requirements of eligible trades for clearing. 2) A trade for which the up-front settlement date came by the day preceding the date of Bearing Obligations. 3) The information related to the trade after Bearing Obligations by JSCC is input on TIW. - JSCC shall be able to not bear obligations for the trade for which the risk of Bearing Obligations is deemed to be extremely large. 	<ul style="list-style-type: none"> - Up-front payment is out of the scope of Bearing Obligations by JSCC. - In the future, JSCC will examine a method of Bearing Obligations earlier.
4. Margins (1) Initial Margin 1) Basic Policy	<ul style="list-style-type: none"> - To manage risks associated with positions held by Clearing Participants, those participants shall deposit margin. - Margins shall be divided into 2 types; Initial Margin and Variation Margin. - The required Initial Margin shall be the estimated amount 	<ul style="list-style-type: none"> - Calculation and notification related to margin shall be conducted by JSCC.

Item	Details	Remarks
2) Calculation Method	<p>of losses due to fluctuation in price (spread), etc. while the process for managing portfolio of a defaulting Clearing Participant is completed.</p> <ul style="list-style-type: none"> - In order to cover the risk in cases where a credit event occurs regarding a reference entity, a fixed amount shall be added to the seller of protection (“short charge”). - In order to cover liquidity risk, a certain amount will be added (bid-offer charge). - Additionally, rules regarding credit event margin and single name margin will be established. - The daily variation amount in net present value (hereinafter referred to as “NPV”) shall be calculated for the day’s CDS positions using the daily fluctuation in price (spread), etc. for a fixed prior period (reference period), in order to measure variation risk. The amount of required Initial Margin shall be the amount to cover the fixed criteria to such variation amount for such period, adding the amount with consideration to the period required to manage the defaulting Clearing Participant’s positions. - The short charge shall be the amount obtained by multiplying A) the oversold amount of Clearing Participant’s positions for reference entity whose oversold amount per Notional Amount is large by B) a fixed percentage (a fixed recovery rate subtracted from 100%). - Bid-offer charge will be calculated by multiplying the bid-offer spread (the spread between bid or offer and the mid price) prescribed for each series by PVO1. - A Clearing Participant shall deposit the sum amount of the required Initial Margin for such Clearing 	<ul style="list-style-type: none"> -See Item 13. (3). - The daily fluctuation which was used in the calculation of Variation Margin shall be used. - Parameters used in calculation are as follows: the reference period as 750 days, coverage ratio (confidence level) as the average value of the worst 1% exceeding 99%, the period required for the process of managing positions (time horizon) as 5 days. - In addition to the data in the reference period, a stress scenario in which the maximum historical change in daily price of NPV during reference period (both positive and negative) and twice the standard time horizon. - The policy of multiplying the oversold amount of the position for a reference entity whose oversold amount is largest by 80% of such oversold amount (recovery rate is 20%) is determined. - The bid-offer spread shall be prescribed based on market conditions. - The bid-offer spread shall be reviewed monthly. Also, depending on market conditions, JSCC may review it when necessary. - PVO1 means the change in NPV when a price changes by one basis point (1bp).

Item	Details	Remarks
3) Deadline for Deposit	<p>Participant's proprietary trade (hereinafter referred to as "Proprietary Trades") and that for its clients' trade (hereinafter referred to as "Client Trade").</p> <ul style="list-style-type: none"> - In cases where the deposit amount of Initial Margin is insufficient, the Clearing Participant shall deposit such insufficient amount by noon of the following day. 	
(2) Variation Margin 1) Basic Policy	<ul style="list-style-type: none"> - Calculation of NPV shall be conducted for each Clearing Participant's positions using the settlement price JSCC determines, and the amount of fluctuation of such NPV from the day before the previous business day to the previous business day shall be paid in cash on every business day as Variation Margin. 	<ul style="list-style-type: none"> -The ISDA Standard Model is used in the calculation of NPV.
2) Settlement Price	<ul style="list-style-type: none"> - Clearing participants shall report daily quote prices relevant to contracts they hold to the JSCC as base data for price (settlement price) calculation in order to calculate NPV. - Clearing Participants designated by JSCC based on their applications shall report to JSCC of the daily quote prices for all contracts eligible for JSCC clearing. - A scheme to ensure the reliability of the CDS Settlement Price will be established. - JSCC shall set forth the price (settlement price) used in NPV calculation based on quote prices reported from participants. 	<ul style="list-style-type: none"> - Refer to the Annex 1 for the reporting method of daily quote, etc. - It shall be permitted that a Clearing Participant reports daily quote prices by constituting necessary cooperation relationship with another body such as an overseas affiliate company, etc. which has trading functionality. - Clearing Participants designated by JSCC shall receive clearing fee incentives. - Refer to Annex 1 for the scheme regarding to the CDS Settlement Price Calculation Method and Measures to Ensure Its Reliability. - Refer to Annex 1 for the CDS Settlement Price Calculation Method and Measures to Ensure Its Reliability.
3) Deadline for Deposit	<ul style="list-style-type: none"> - Clearing Participants who pay Variation Margin shall pay Variation Margin to JSCC by 1:00 PM. 	

Item	Details	Remarks								
(3) Intra-Day Initial Margin Call	<ul style="list-style-type: none"> - Clearing participants who receive Variation Margin shall receive Variation Margin from JSCC after 2:45 PM. - JSCC may require depositing intra-day Initial Margin when necessary, in such cases as the CDS prices fluctuate sharply intra-day. - The deposit will be required to be made by 3:00 PM based on the price around 11:00 AM. - The required amount of Initial Margin being the sum amount of the required amount of Initial Margin which is recalculated based on the price around 11:00 AM and the amount of fluctuation (as for clients, the amount of fluctuation of Variation Margin only) of Variation Margin. 	<ul style="list-style-type: none"> - The case where the CDS prices fluctuated sharply will be determined as where the fluctuation in the spread of the on-the-run series exceeds an average of 1% above the 99% confidence level for the past 750-day reference period. - This will be applied only to the clearing participant whose intra-day Initial Margin's shortfall amount to the required amount is more than JPY 10 million. 								
(4) Extra Initial Margin 1) Extra Initial Margin in Accordance with Positions	<ul style="list-style-type: none"> - When the estimated loss of a Clearing Participants' position reaches a certain proportion of its net capital amount, additional Initial Margin shall be required. . The ratio and Additional Rate are as below. <table border="1" data-bbox="524 975 1077 1294"> <thead> <tr> <th data-bbox="524 975 801 1054">Estimated Loss/ Net Asset</th> <th data-bbox="801 975 1077 1054">Additional Rate</th> </tr> </thead> <tbody> <tr> <td data-bbox="524 1054 801 1098">Over 10%</td> <td data-bbox="801 1054 1077 1098">10%</td> </tr> <tr> <td data-bbox="524 1098 801 1177">for every 10% increment</td> <td data-bbox="801 1098 1077 1177">+10%</td> </tr> <tr> <td data-bbox="524 1177 801 1294">Over 100%</td> <td data-bbox="801 1177 1077 1294">100% + full charge on newly borne obligations</td> </tr> </tbody> </table>	Estimated Loss/ Net Asset	Additional Rate	Over 10%	10%	for every 10% increment	+10%	Over 100%	100% + full charge on newly borne obligations	<ul style="list-style-type: none"> - In addition, extra Initial Margin is in accordance with credit condition (see Item 2(2)). - The estimated loss is based on the assumption of the stress condition which is used to calculate the Clearing Fund. - In case where the rate is over 100%, the full charges on newly borne obligations are as below: Oversold : 100% of notional amount Overbought: present value of Fixed Payment + Variation Margin (amount received).
Estimated Loss/ Net Asset	Additional Rate									
Over 10%	10%									
for every 10% increment	+10%									
Over 100%	100% + full charge on newly borne obligations									
2) Concentration Charge	<ul style="list-style-type: none"> - In cases where all series of portfolio held by a Clearing Participant are converted to on-the-run issues based on 									

Item	Details	Remarks								
<p>5. Clearing Participant Account</p>	<p>VaR and then the sum of Notional Amount after the netting of oversold/overbought positions reaches the following criteria, JSCC shall apply additional rate to the Initial Margin.</p> <table border="1" data-bbox="479 357 1059 635"> <thead> <tr> <th data-bbox="479 357 775 397">Notional Amount</th> <th data-bbox="775 357 1059 397">Additional Rate</th> </tr> </thead> <tbody> <tr> <td data-bbox="479 397 775 437">Over 75 billion yen</td> <td data-bbox="775 397 1059 437">10%</td> </tr> <tr> <td data-bbox="479 437 775 517">75~ 100 billion yen</td> <td data-bbox="775 437 1059 517">As for every 5 billion yen +10%</td> </tr> <tr> <td data-bbox="479 517 775 635">Over 100 billion yen</td> <td data-bbox="775 517 1059 635">100% + full charge on newly borne obligations</td> </tr> </tbody> </table> <ul style="list-style-type: none"> - Clearing Participants shall have an account with JSCC (hereinafter, this account is referred to as “Clearing Participant Account.”) to record CDS trades which are borne by JSCC. - The Clearing Participant account consists of accounts which record Proprietary Trades (hereinafter referred to as “Proprietary Account”) and accounts which record client’s trades (client is a entrustor of Brokerage for Clearing of Securities) by each client (hereinafter referred to as “Client Account”). Clearing Participant may have sub-accounts in the Proprietary Account and Client Account. - Clearing Participants shall submit to JSCC the information about Clearing Participant Account in advance. - The required amount of Initial Margin and Variation Margin shall be calculated by each account (regardless of Proprietary Account, Client Account or sub-account). 	Notional Amount	Additional Rate	Over 75 billion yen	10%	75~ 100 billion yen	As for every 5 billion yen +10%	Over 100 billion yen	100% + full charge on newly borne obligations	<ul style="list-style-type: none"> - In cases where the Notional Amount is over 100 billion yen, the full charge on newly borne obligations is as below. Oversold : 100% of Notional Amount Overbought: Present value of Fixed Payment + Variation Margin (amount received). - The criteria shall be reviewed every year. In addition, the criteria may also be reviewed in cases where JSCC deems necessary taking into account the market situation.
Notional Amount	Additional Rate									
Over 75 billion yen	10%									
75~ 100 billion yen	As for every 5 billion yen +10%									
Over 100 billion yen	100% + full charge on newly borne obligations									

Item	Details	Remarks
<p>6. Brokerage for Clearing of Securities</p> <p>(1) Process Related to Brokerage for Clearing of Securities</p> <p>(2) Separate Management of Clients' Position</p> <p>(3) Deposit and Separate Management of</p>	<ul style="list-style-type: none"> - We will implement Clearing Brokerage in order to permit the Clearing Participants to utilize JSCC for trade against their clients. - For the time being, with respect to the Brokerage for Clearing of Securities, clients shall be limited to the group companies of the Clearing Participant (known as Affiliates). - Where Clearing Participant aim to start Clearing Brokerage, Clearing Participants needs to enter into Clearing Trustee Agreement with their clients as the entrustor. - Those trades for Clearing Brokerage done by clients will form trust – entrust relationship between the Clearing Participant and the client in case all necessary conditions are met and eventually Clearing Brokerage trade will be formed between the Clearing Participants and at the same time JSCC will bear such obligation. Simultaneously, the trade under the client name will be eliminated according to the JSCC CDS Business Rules and Clearing Trustee Agreement. - With regards to the trade with the Clearing Participants, JSCC will manage the positions within the Clearing Participants' account separating into Clients' Trade and Proprietary Trade. - Client shall deposit Initial Margin to the Clearing Participant to whom they have entrusted for Clearing 	<ul style="list-style-type: none"> - To handle the overseas booking trades as client trades to utilize the Client Brokerage. - In order to trade Client Brokerage, a client as entrustor is required to be user of TIW. - With respect to the Brokerage for Clearing of Securities for the affiliates of the Clearing Participants, this shall be examined after the launch of clearing services taking into account market conditions. - JSCC will stipulate the document forms of the Clearing Trustee Agreement. - In case the obligation was not borne by JSCC, Clearing Brokerage will not be concluded for such trade but remains effective as client trade if no specific arrangement being decided between the participants. - Where Clearing Participant has accepted the trade through Clearing Brokerage, they will become the counterparty of JSCC with regards to debt-credit obligations and will conduct the settlement. - Refer to Item 5 for Clearing Participants' account. - Will establish the direct depository scheme as same as the Exchange Traded Derivatives products.

Item	Details	Remarks
Clients' Margin	Brokerage. Clearing Participant will then deposit the full amount to JSCC as a proxy to the client. - The amount of the margin to be deposited by the client shall be more than the required amount as calculated by JSCC according to the net position of such client. - JSCC will manage the margin from the Clearing Participant separately between the margin due to their Clients' Trade and margin due to their Proprietary Trade.	
7. Fixed Payment (Transfer of Premium)	- The calculation of Fixed Payment will be as per below. Notional Amount x Fixed Interest Rate x Calculation for interest period days	- The calculation as described to left will be subject to the business days and the adjustment to those business days as such applied with the CDS trades.
8. Method of Settlement (1) Settlement Method	- Delivery of the settlement amount between the Clearing Participant and JSCC will be conducted through account transfer with BOJ Net.	- To gain agreement from the Bank of Japan will be condition precedent over the usage of BOJ Net. - The settlement amount settled through account transfer with BOJ Net will include the Variation Margin.
(2) Netting	- Clearing Participants will deliver the CDS related daily settlement amount with JSCC in net amount separately for each payment type (Fixed Payment, Variation Payment, Variation Margin and Early Termination Fee).	
9. Clearing Funds (1) Purpose of Clearing Funds	- Regarding CDS trades, CDS Clearing Participants shall be required to make a deposit of Clearing Funds in order to secure the risk that is not covered by the margin which is deposited by CDS Clearing Participants.	
(2) Required Amount of	- The required amount of Clearing Funds shall be an	- Calculation and notification related to Clearing Funds shall be

Item	Details	Remarks
Clearing Funds	<p>amount which can cover the following;</p> <p>(1) Loss produced in cases where a CDS Clearing Participant defaults without having paid margin.</p> <p>(2) Loss produced as a result of insufficiency of margins deposited by CDS Clearing Participants caused by multiple CDS Clearing Participants default due to extreme but possible market conditions (stress conditions).</p> <p>- Specifically, the required amount of Clearing Funds shall be whichever the larger (when such amount is less than the minimum required amount, it shall be the minimum required amount) of the following amounts;</p> <p>(i) Day to day amount of increase for the margin shall be the total amount to cover certain portion of the certain past period.</p> <p>(ii) The proportional amount for estimated amount of loss in case of default by multiple Clearing Participants has occurred under stress condition to which is then proportioned according to the risk amount of the position held with each Clearing Participants.</p> <p>- Required amount will be calculated once a week.</p>	<p>conducted by JSCC.</p> <p>- The minimum required amount shall be JPY 100 million.</p> <p>- The sum of the day-to-day increase in the amount of Initial Margin and Variation Margin shall be the amount to cover the 99% of the past 6 months.</p> <p>- The loss amount caused by Clearing Participant's default under the stress condition shall be, during the period of most extreme fluctuation market has ever experienced, to assume that time horizon has doubled (to 10 days) from the normal condition and further assumption being made that for the Reference Entity is concerned, within the short position each participants hold, the two largest (one largest in the case of tightening condition) Entities have defaulted where the Recovery Rate is assumed to be 0 (zero). Under such assumption being made, the amount of loss caused by default of two Clearing Participants (including those within the same entity group) whose amount of loss exceeding the margin amount (the average amount during the month) being the two largest.</p> <p>- The proportional amount of estimated loss amount shall be pro rata share to the required amount of Initial Margin of each Clearing Participant.</p> <p>- The calculation shall be based on processing of Bearing Obligations</p>

Item	Details	Remarks
(3) Deadline for Deposit	- In case any insufficiency has occurred for the Clearing Funds, the additional deposit shall be transferred by noon on the following business day.	on the date of Bearing Obligations (weekly). - The same as the existing Clearing Funds.
10. Deposit and Return of Collateral		
(1) Type of Collateral	- Clearing Participants may deposit Japanese Yen or Securities in Lieu of Cash as the Initial Margin and Clearing Funds.	- Variation Margin may be covered by cash only and no Securities in Lieu of Cash are allowed for deposit.
(2) Collateral in Cash	- Delivery and return of Japanese Yen deposits for Initial Margin and Clearing Funds between the Clearing Participants and JSCC may be settled through account transfer between the Participant's bank a/c and the JSCC's bank a/c opened with commercial bank.	- Variation Margin may be settled through account transfer with BOJ Net. (Refer to Item 8 (1))
(3) Interest on Collateral in Cash	- No interest will be paid for Japanese Yen deposited as Initial Margin and Clearing Funds. - Interest will be paid for Variation Margin at O/N Mutan Call rate.	- Clearing Participants who have received Variation Margin from JSCC will pay interest to JSCC and Clearing Participants who have delivered Variation Margin to JSCC will receive the interest from JSCC. - Interest on Variation Margin shall be paid on a monthly basis.
(4) Securities in Lieu of Cash	- Eligible Securities in Lieu of Cash for collateral are Japanese Government Bond (hereinafter "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.	- Appropriate hair cut rates will be applied to Securities in Lieu of Cash for collateral, taking into account of the price fluctuation.

Item	Details	Remarks
11. Scheme for Managing Settlement Failure by the Clearing Participant	<ul style="list-style-type: none"> - 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. - The scheme for managing defaulting Clearing Participant's positions in case of the Settlement Failure shall be as provided in Annex 2. 	
12. Framework of Loss Compensation Scheme (1) Financial Resources for Loss Compensation	<ul style="list-style-type: none"> - 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. <ul style="list-style-type: none"> (First tier) Margin / Clearing Funds deposited by the defaulting Clearing Participant. (Second tier) Compensation by JSCC. (Third tier) Clearing Funds deposited by the remaining Clearing Participants (Limited to the Clearing Funds related to CDS business only.) and compensation by JSCC. (Fourth tier) Special Charge collected from Non-defaulting Clearing Participants. (Fifth tier) Compensation by clearing participants who are to receive Variation Margin, etc. in terms of cumulative amount after the default (hereinafter referred to as "Recipient Clearing Participant"). - With the commencement of the CDS clearing business, JSCC will set aside certain amount for the loss compensation. 	<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. - In particular, amount of JPY 4 Billion is currently under consideration (JPY 2 Billion as the (Second tier) and additional JPY 2 Billion as the (Third tier)).

Item	Details	Remarks
<p>(2) Handling of Compensation by Non-Defaulting Clearing Participants' Clearing Fund</p>	<ul style="list-style-type: none"> - Compensation by JSCC will be effected by any profit earned through the OTC Derivatives Clearing business which will be used to compensate the loss occurred by the default of Clearing Participant. - In cases where the loss incurred due to the default of Clearing Participant exceeds the sum of the first and second tier of loss compensation resources, non-defaulting Clearing Participants shall compensate the amount calculated by dividing the amount obtained by subtracting the amount compensated by the third tier compensation by JSCC from such excess amount on a pro rata basis to the required amount of Clearing Fund of each Clearing Participant with the condition that such compensation is limited to the total amount of required amount for Clearing Fund on the defaulting day. - In cases where the deposited amount of clearing fund falls below the required amount due to compensating any losses by appropriating the Clearing Fund, non-defaulting Clearing Participants shall immediately increase such deposited amount of Clearing Fund to exceed the required amount. 	<ul style="list-style-type: none"> - The third tier compensation by JSCC shall be calculated by multiplying such excess amount by the amount of third tier financial resources for loss compensation by JSCC divided by the sum of the amount of the third tier financial resources for loss compensation by JSCC and the total amount of the required amount of Clearing Fund. - In case where JSCC simultaneously conducts default management for multiple defaulting Clearing Participants, by the time prescribed by JSCC before noon on the auction day, non-defaulting Clearing Participants shall deposit with JSCC the required amount for Clearing Fund regarding the relevant default management (in case where multiple auctions are simultaneously held, the sum of the Clearing Fund required amount regarding each default management) as the Clearing Fund.
<p>(3) Handling of Special Charge Collected from Non-Defaulting Participants</p>	<ul style="list-style-type: none"> - In cases 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 amount calculated by dividing such excess amount on a pro rata basis to the required amount of Clearing 	<ul style="list-style-type: none"> - The Special Charge collected here for loss compensation shall be Special Clearing Fee.

Item	Details	Remarks
	<p>Fund for each Clearing Participant as the Special Charge.</p> <ul style="list-style-type: none"> - Non-defaulting Clearing Participants shall deposit with JSCC cash equivalent to the required amount of Clearing Fund on the default day as collateral for the Special Charge by, in case where the loss of Variation Margin (including Fixed Payment and Floating Payment; hereinafter referred to as “Variation Margin, etc.) of defaulting Clearing Participant after such default exceeds the sum of the first, second and third tier of loss compensation resources, the following business day of such excess day or otherwise by the time prescribed by JSCC by noon on the auction day regarding the default management; provided that the relevant Clearing Participants shall not be required to deposit additional collateral against the default which occurred during 30 days period from the first default (hereinafter referred to as “Special Charge Term”). - Compensation by Special Charge by non-defaulting Clearing Participants for the default that occurred during the Special Charge Term is limited to the deposited amount of collateral for Special Charge. - Deposited margin amount for the Special Charge shall be appropriated to compensation by Special Charge for each default management. In case where compensation amount by Special Charge during the Special Charge Term is smaller than the deposited margin amount for the Special Charge, unspent amount shall be returned to each Clearing Participant on the day when the loss amount regarding default management incurred by JSCC has been fixed after expiration of the Special Charge Term. 	<ul style="list-style-type: none"> - In cases where multiple Clearing Participants defaults during the Special Charge Term, compensation shall be conducted through appropriating the deposited margin amount regarding the Special Charge placed in relation to the first default. - The losses which exceed the sum of the first, second and third of loss compensation resources and to be compensated in the fourth tier in each default management shall be incurred by Recipient Clearing Participants as prescribed in the fifth tier until the appropriated margin amount for Special Charge is fixed, and then such appropriated margin amount for Special Charge shall compensate the amount incurred by Recipient Clearing Participants. - In cases where the losses of default management exceed the sum of the first, second, third and fifth tier of loss compensation resources, the margin for Special Charge shall be compensated for such

Item	Details	Remarks
<p>(4) Handling of Compensation by Recipient Clearing Participants of Variation Margin, etc.</p>	<ul style="list-style-type: none">- In cases 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, Recipient Clearing Participants after the default shall compensate the amount calculated by dividing such excess amount of the sum of gained Variation Margin, etc. on a pro rata basis after such default as a compensation by Recipient Clearing Participants of Variation Margin, etc. (special clearing fee). In this case, the sum of compensation amount by each Recipient Clearing Participant shall be limited to the sum of the loss of Variation Margin, etc. by defaulting Clearing Participant after such default.- In cases where the loss of defaulting Clearing Participant's Variation Margin, etc. after such default exceeds the sum of the first, second, third and fourth tier of loss compensation resources, Recipient Clearing Participants shall deposit with JSCC the amount calculated by dividing on a pro rata basis of the sum of gained Variation Margin, etc. as collateral.- Recipient Clearing Participants shall deposit with JSCC cash equivalent to the amount (required deposit amount) calculated by deducting the amount that each Recipient Clearing Participant already deposits as collateral regarding the fifth tier of loss compensation resources from the amount calculated by dividing the losses of defaulting Clearing Participant's Variation Margin, etc. on a pro rata basis to the sum of gained Variation Margin, etc. as collateral by the time prescribed by JSCC before noon on the auction day; provided that, in	<p>excessive losses amount at that point of time.</p> <ul style="list-style-type: none">- The amount compensated by the Recipient Clearing Participant shall be Special Clearing Fee.- The deposited margin amount by Recipient Clearing Participants shall be paid/received together with the Variation Margin delivery amount for relevant Clearing Participants every day.

Item	Details	Remarks
<p>(5) Handling of Failure to Deposit Special Charge</p>	<p>case where the Initial Margin amount deposited by Clearing Participant exceeds the required deposit amount, the Recipient Clearing Participants shall not be required to deposit collateral and in case where the Initial Margin amount deposited by Clearing Participant is smaller than the required deposit amount, the Recipient Clearing Participants shall be required to deposit collateral equivalent to such short amount.</p> <ul style="list-style-type: none"> - When the auction has been held and the loss amount incurred by JSCC has been fixed, JSCC shall immediately return the amount calculated by deducting the fixed loss amount from the sum of the first, second, third and fifth tier of loss compensation resources to Clearing Participants. In addition, in case where collateral regarding Special Charge has been appropriated to the loss to be compensated by the fifth tier collateral, such appropriated amount shall be returned to each Clearing Participant incurring such loss using the fifth tier collateral (see (3)). - In case where the Clearing Participant does not place the amount as fourth and fifth tier, default proceeding will take place for such Clearing Participant (Secondary Defaulting Clearing Participant). - The loss incurred as a cause of amount for Fourth and Fifth tier not being placed will be appropriated by the Margin and Clearing Fund of the Secondary Defaulting Clearing Participant and as for the remaining loss is concerned, it will be borne by other Clearing Participants as the loss related to each tier by the bearing method according to each such tier. In this case, the 	<ul style="list-style-type: none"> - Until compensation amount regarding Special Charge has been fixed and the amount deposited as collateral for Special Charge has been appropriated, the loss which exceeds the sum of the first, second and third tier of loss compensation resources shall be incurred by Recipient Clearing Participants (see (3)). - Clearing Participants whose fifth tier compensation amount exceeds the amount deposited as the fifth tier collateral (which does not include the deposited amount of initial margin) as a result of auction shall be required to deposit cash equivalent to such excessive amount by the auction settlement date.

Item	Details	Remarks
(6) Handling the Forfeiture of the Clearing Qualification	<p>amount to be borne by other Clearing Participants as loss incurred by fifth tier will be limited to the total sum of gained amount for such Clearing Participant.</p> <ul style="list-style-type: none"> - With regard to the Clearing Participant who expects forfeiture of their Clearing Qualification, they will be required to participate for compensation of Clearing Fund, compensation through Special Charge and compensation by the gained Clearing Participant of Variation Margin for the Clearing Participant Default that occurred before the Acknowledgement Day for Forfeiture of the Clearing Qualification. - With regard to the Clearing Participant who has been approved for forfeiture of their Clearing Qualification will not be required to participate for compensation of Clearing Fund, compensation through Special Charge and compensation by the Recipient Clearing Participant of Variation Margin for the Clearing Participant default that occurred after the approval day for Forfeiture of the Clearing Qualification. 	<ul style="list-style-type: none"> - Refer to Item 2. (4) for Forfeiture of Clearing Qualification.
(7) Handling of the credit obligation collected from the Defaulting Clearing Participant	<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 Clearing Participant, such collected amount should be returned to the Clearing Participants who participated in Loss Compensation etc., in a proportioned amount. - Return should take place for borne portion related to the financial resource 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 	<ul style="list-style-type: none"> - As for the return 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.

Item	Details	Remarks
<p>13. Variation Payment (Credit Event Settlement)</p> <p>(1) Determination of CE</p> <p>1) Bankruptcy, Failure to Pay</p> <p>2) Restructuring</p>	<p>cost generated from the early termination of positions for non-defaulting Clearing Participants.</p> <p>- Credit Event (hereinafter referred to as “CE”) settlement will be processed based on the framework by ISDA Credit Derivatives Determinations Committee (hereinafter “DC”).</p> <p>- JSCC will in principle determine CE according to the CE determination made by the DC.</p> <p>- JSCC will set up its own DC by gaining participation from broad numbers of the Clearing Participants in case ISDA DC did not make determination.</p> <p>- Those CDS trades which include Reference Entity being determined either as Bankruptcy or Failure to Pay, will be subject to CE settlement without exception.</p> <p>- Those CDS trades which include Reference Entity being determined as Restructuring, in case the Clearing Participant request for CE settlement, CE Notification needs to be submitted to JSCC within the period prescribed by JSCC,.</p>	<p>- In case the CE has been determined, the start date for Bearing Obligation on newly versioned Index CDS trades and the end date for Bearing Obligation on old version of Index CDS trades will be decided individually according to actual market conditions.</p> <p>- In case CE has been determined, JSCC will make notification of such fact and the process to the Clearing Participants.</p> <p>- Arrangement will be made between ISDA so that JSCC could participate to the DC as an observer.</p> <p>- Consideration will be made with the ISDA members in setting up the Determination Committee by taking into account the contents of the change made to the CPSS-IOSCO Recommendation.</p> <p>- In case CE determination was made to one of the Reference Entities of the Index CDS trade being cleared by JSCC, JSCC will continue to clear such Index CDS trade excluding such Reference Entity together with the Single Name CDS trade (hereinafter Single-Name CDS trade (decoupled)) for such Reference Entity.</p> <p>- JSCC and the Clearing Participant will not send any CE Notifications.</p> <p>- CE Notification with regards to client trades need to be processed to JSCC by the Clearing Participant at the request from the client.</p> <p>- Those CDS trades where CE Notification was not sent out will continue to be subject to Bearing Obligation as positions not subject to CE settlement.</p> <p>- Where Clearing Participant will process the CE Notification, these will be processed at the original trade unit base (CE Notification for the partial portion of the original trade will not be accepted).</p>

Item	Details	Remarks
(2) Method of CE Settlement	<ul style="list-style-type: none"> - In case where JSCC received the CE Notification regarding the Restructuring, JSCC will then make CE Notification to the counterparty of such original trade. - JSCC will process CE settlement between such Clearing Participant who made a CE Notification with regards to Restructuring and the Clearing Participant to which JSCC has made the CE Notification. - In principle, settled in cash utilizing the price at the auction which was held under the determination by the DC. - CE settlement will be settled on the day as stipulated under the auction settlement condition as determined by DC (in case such date is not stipulated under the auction settlement condition, the sixth day counting from such day the final price was determined by the auction). - The cash settlement (variation settlement) with regards to the CE settlement will be settled through account transfer by BOJ Net. - In case above auction ended up in failure or, DC decided not to hold an auction, cash settlement will be processed as per prescribed in Annex 3 as per stipulated by JSCC. 	<ul style="list-style-type: none"> - The CE settlement with regards to the client trade will be settled by the Clearing Participant for the settlement between JSCC and the Clearing Participant, and the client will separately settle the same amount between the Clearing Participant. - The feasibility of usage of the price at the auction held by ISDA will be under condition that agreement from ISDA is obtained. - Even for trades which JSCC has borne obligation, the Clearing Participant can participate in the ISDA auction. By participating, Clearing Participants who wish for physical delivery transfer can realize such delivery through the auction process.
(3) Handling of Margin When CE Occurs	<ul style="list-style-type: none"> - In case Restructuring has been determined, as for the Single-name CDS trades (decoupled) are concerned, 	<ul style="list-style-type: none"> - The certain rate will be determined for each occasion taking into account the market condition.

Item	Details	Remarks
(4) Handling of Fixed Payment When CE Occurs	<p>during the period from the time CE Notification was made until when the CE Settlement is made, the required Initial Margin amount (Credit Event Margin) for such Single-Name CDS trade (decoupled) will be calculated by multiplying certain rate to the notional amount of such oversold position.</p> <p>- In case Restructuring has been determined, as for the Single Name CDS trades (decoupled) are concerned, until such time the CE Notification is made certain amount will be set as the required Initial Margin amount (Single-Name Margin) for such Single Name CDS trade (decoupled).</p> <p>- As for the calculation of Fixed Payment at the time of CE determination is concerned, this amount will be calculated for the period starting from the final day of the previous interest period to the date CE occurred including both the start date and the end date of the period into the calculation.</p> <p>- Fixed Payment will be settled on the CE determination date.</p>	<p>- As for the selling side is concerned, by multiplying the certain rate which takes into account the market condition to the Notional Amount.</p> <p>- As for the buying side, the amount set as equivalent to the present value of the fixed payment amount.</p>
14. Early Termination	<p>- Clearing participants who wish to conduct the early termination shall make such declaration to JSCC via TIW.</p> <p>- In case where early termination is concluded, clearing shall be conducted at the price agreed upon by both parties (present value), and cash shall be transferred between them as an Early Termination Fee.</p>	<p>- Early termination shall be conducted with consent of counterparty to the original trade.</p> <p>-The consent and others for early termination related to clients' trades shall be submitted to JSCC by Clearing Participants under the clients' intent.</p>
15. Clearing Fee, etc. (1) Basic Concept	<p>- In deciding the clearing fee for CDS, the following points</p>	

Item	Details	Remarks
<p>(2) Fee Structure</p> <p>1) Clearing Fee</p> <p>2) Other Fees</p>	<p>will be examined comprehensively.</p> <p>1) The clearing fee is based on each Clearing Participant's benefit from using JSCC (each participant's clearing amount).</p> <p>2) Each Clearing Participant shall bear the operational cost of JSCC which is generated regardless of the amount of obligation borne for each Clearing Participant.</p> <p>3) The level of the clearing fee shall be set to compensate JSCC's system development costs and operational costs necessary for JSCC to pursue with the CDS clearing business.</p> <p>4) With consideration given to the competitiveness of domestic market, the level of the clearing fee shall be conducive to the growth of domestic CDS market.</p> <p>- Clearing fee is calculated by the following formula; Clearing fee = Amount of obligations borne by JSCC x the rate set by JSCC</p> <p>- The maximum and minimum fee will be introduced.</p> <p>- Fees other than the clearing fee are as provided in Annex 4.</p>	<p>- The rate is as provided in Annex 4.</p>

Regarding CDS Settlement Price Calculation Method and Measures to Ensure Its Reliability

Item	Details	Remarks
<p>1. Premise of quotes submitted, etc.</p> <p>(1) Scope of quotes to be submitted by clearing participants</p> <p>(2) Premises of Notional amount of quotes to be submitted</p> <p>2. Deadline and method of quote submission</p> <p>(1) Deadline</p> <p>(2) Method of quote submission</p>	<p>-Clearing participants are required to submit quote for series for which they hold a position on a daily basis. In addition, clearing participants designated by JSCC based on prior applications are required to report to JSCC on quote prices for all eligible contracts regardless of their positions.</p> <p>-Clearing participants shall submit quotes for trades with a notional amount of JPY 1 billion.</p> <p>-Clearing participants will be required to submit quotes which they think are the latest tradable prices within the 15 minute submission window from 15:15 to 15:30.</p> <p>-With regard to information transmission between clearing participants and Markit, clearing participants may submit the quotes by one of the</p>	<p>-A discount clearing fee shall be applied to clearing participants designated by JSCC based on prior applications (a discount fee of JPY 700 , instead of JPY 800 per JPY 100 million notional amounts for 1 trade).</p> <p>-Submitted quotes shall be a mid price or, bid and offer prices.</p> <p>-Within the submission window, clearing participants can change their submitted quotes as many times as they want and the last submitted quote shall be adopted by JSCC.</p> <p>-Quotes submitted outside the submission window shall not be adopted in order to maintain reliability.</p> <p>-Clearing participants shall submit quotes to JSCC via Markit's services.</p>

Item	Details	Remarks
<p>3. Bid/Ask Constraint grids for quotes</p> <p>(1) Setting up bid/ask constraint grids for quotes</p> <p>(2) Determination criteria of market conditions related to bid/ask constraint grids for quotes</p>	<p>following two types, depending on whether XML format is available in their internal systems.</p> <p><Type1> In cases where XML format is available Clearing participants will transfer information in XML format by directly connecting to the server designated by Markit (direct connection method).</p> <p><Type2> In cases where XML format is unavailable Clearing participants will transfer data by using the spread sheet (MS-Excel) provided by Markit which converts the data into XML format (tool method).</p> <p>-Bid/ask constraint grids shall be set up in order to adjust the submitted quotes from clearing participants.</p> <p>-Bid/ask constraint grids shall be set up for each index series according to the following market conditions: Normal, Volatile and Extreme.</p> <p>-Market conditions related to bid/ask constraint grids for quotes shall be determined using following criteria based on intraday volatility data of the current day on-the-run series (the difference between the largest and smallest quotes observed in the intraday market):</p> <ul style="list-style-type: none"> ✓ In cases where intraday volatility data is no greater than 68% of overall historical data for the past 100 days: Normal ✓ In cases where intraday volatility data is no greater than 95% but greater than 68% of overall historical data for the past 100 days: Volatile ✓ In cases where intraday volatility data is greater than 95% of overall 	<p>-JSCC shall determine bid/ask constraint grids for quotes after proposing the reviewed grids to clearing participants and seeking their opinions every month.</p> <p>-JSCC may change bid/ask constraint grids where JSCC deems necessary, such as a sudden market changes.</p> <p>-Intraday volatility data shall be monitored using the information on quotes already provided by Markit.</p>

Item	Details	Remarks														
<p>5. Introduction of a mechanism to ensure the reliability of settlement price</p> <p>(1) Measures taken in cases where submitted quotes differ from the</p>	<p>be calculated by the current day bid/ask constraint grids for quotes added to and/or subtracted from the initial settlement level and the ask price falling below such minimum price and the bid price exceeding such maximum price shall be identified as outliers.</p> <p>v) After outliers are identified and excluded via the above process iv), bid prices are arranged in descending order and ask prices arranged in ascending order again.</p> <p>vi) A pair in which the bid price exceeds the ask price again shall be identified as the “final crossed market”.</p> <p>vii) The mid price of the first pair which does not apply to the “final crossed market” in the above sentence in vi) shall be calculated as the final settlement price.</p> <p>-In cases where quotes submitted by clearing participants are identified as the final crossed market in the process of determining the settlement price, the execution of trades, etc. shall be conducted at a certain frequency according to the following classifications.</p>	<p>*Given the current day bid/ask constraint grid is 2 bps, the upper limit of the bid price shall be 118.75 and the lower limit of the ask price shall be 114.75. Therefore, the bid price of E is regarded as an outlier.</p> <p>*In cases where either the ask price or bid price is regarded as an outlier, both quotes submitted by relevant participants shall be excluded from the calculation of the settlement price.</p> <p>Bid (bps) Ask (bps)</p> <table border="1" data-bbox="1341 671 1960 890"> <tr> <td>117 B</td> <td>116 D</td> <td rowspan="2">Final crossed market</td> </tr> <tr> <td>116.5 F</td> <td>116.5 C</td> </tr> <tr> <td>115 D</td> <td>117 A</td> <td>Final settlement price = 116</td> </tr> <tr> <td>115 A</td> <td>117 F</td> <td></td> </tr> <tr> <td>114.5 C</td> <td>118 B</td> <td></td> </tr> </table> <p>-Where JSCC deems necessary, the settlement price shall be determined by JSCC from time to time at its discretion.</p> <p>-The frequency of conducting the execution of trades, etc. shall be approximately once or twice a month and the execution date shall be determined by JSCC at its discretion (No prior notice will be conducted.).</p>	117 B	116 D	Final crossed market	116.5 F	116.5 C	115 D	117 A	Final settlement price = 116	115 A	117 F		114.5 C	118 B	
117 B	116 D	Final crossed market														
116.5 F	116.5 C															
115 D	117 A	Final settlement price = 116														
115 A	117 F															
114.5 C	118 B															

<Reference Translation>

Item	Details	Remarks									
<p>overall quote level to a certain extent</p>	<p><On-the-run series></p> <ul style="list-style-type: none"> ✓ The execution of trades between the clearing participants which submit quotes which fall under the “final crossed market” shall be conducted. ✓ The calculation method of the price at which the execution of trades is conducted is as follows: <ol style="list-style-type: none"> 1. The ask prices of the pairs which fall under the “final crossed market” will be arranged in descending order. 2. The mid prices of each pair shall be the execution prices of such pairs respectively. ✓ In cases where the execution of trades is conducted, JSCC shall send notice to the relevant clearing participants immediately. <p><Off-the-run series></p> <ul style="list-style-type: none"> ✓ A cash penalty of 50,000 yen shall be imposed upon clearing participants which fall under the “final crossed market” due to their quotes. 	<p>-Example of calculation of the settlement price</p> <table border="1" data-bbox="1344 430 1960 598"> <thead> <tr> <th data-bbox="1344 430 1556 462">Bid (bps)</th> <th data-bbox="1556 430 1680 462">Ask (bps)</th> <th data-bbox="1680 430 1960 462"></th> </tr> </thead> <tbody> <tr> <td data-bbox="1344 502 1556 534">117 B</td> <td data-bbox="1556 502 1680 534">116.5 C</td> <td data-bbox="1680 502 1960 534">Execution price = 116.75</td> </tr> <tr> <td data-bbox="1344 550 1556 582">116.5 F</td> <td data-bbox="1556 550 1680 582">116 D</td> <td data-bbox="1680 550 1960 582">Execution price = 116.25</td> </tr> </tbody> </table> <p>-The date upon which JSCC imposes cash penalty on relevant clearing participants shall be, as general rule, the same as that for on-the-run series when the execution of trades is conducted.</p> <p>-In the case that the liquidity of off-the-run series improves, introduction of the execution of trades for each series will be considered again.</p>	Bid (bps)	Ask (bps)		117 B	116.5 C	Execution price = 116.75	116.5 F	116 D	Execution price = 116.25
Bid (bps)	Ask (bps)										
117 B	116.5 C	Execution price = 116.75									
116.5 F	116 D	Execution price = 116.25									
<p>(2) Measures taken in cases where submitted quotes differ from the overall quote level substantially</p>	<p>-If quotes submitted by clearing participants are excluded as outliers in the process of determination of the settlement price, a cash penalty shall be imposed on the relevant clearing participants according to the following criteria:</p>										

<Reference Translation>

Scheme for Managing Clearing Participant's Default

Item	Details	Remarks
Process for Managing Portfolio 1. Preliminary Procedure (1) Clearing Participants Which Cooperate in Default Management	<ul style="list-style-type: none"> -The process for managing a defaulting clearing participant's remaining portfolio shall be as follows: -In the case where a clearing participant defaults, JSCC shall immediately designate three clearing participants to co-operate with default processing. -Co-operative Participants shall provide one staff per participant to conduct risk hedging and the auction for the defaulting Clearing Participant's portfolio. -“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. -JSCC will randomly order all Clearing Participants in a list. The first three participants on the list will become Candidates for Co-operative Participants and will be appointed as a Co-operative Participants in case of default. -The term of the Candidate for Co-operative Participants will be six calendar months. (i.e., April through September and October through March) -At the termination of the Candidate for Co-operative Participants' term, JSCC will appoint the next three participants on the list as 	<ul style="list-style-type: none"> -In the case where a clearing participant does not satisfy the requirements for maintaining CDS Clearing Qualifications and unsettled contracts could not be liquidated within a certain period, JSCC shall conduct the same process. -The number of companies shall be the same as at ICE Trust. -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. -ICE Trust shall make the same kind of list of the CDS Participants that has been approved by ICE Trust's Board of Managers after consultation with the Risk Committee, a consultative body. -In cases where a Candidate for Co-operative Participant defaults, the following participant on a list will be appointed as a Co-operative Participant. -Regardless of whether a clearing participant defaults during the term, such term will be six calendar months.

<Reference Translation>

Item	Details	Remarks
(2) Implementation of Risk-Hedging	<p>new Candidates for Co-operative Participants. The former Candidates for Co-operative Participants will be moved to the end of the list.</p> <p>-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.</p>	<p>-The means of risk-hedging, etc. will be discussed at DMC.</p>
2. Auction (1) Portfolio	<p>-JSCC will conduct an auction for proprietary positions of a defaulting participant, client positions of the defaulting clearing participant which were not transferred to other clearing participant(s) and risk-hedged positions of JSCC.</p> <p>-CDS 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.</p>	<p>-JSCC will auction each defaulting participant's net position.</p>
(2) Participation in Auction	<p>-Only clearing participants will participate as bidders in the auction.</p> <p>-JSCC will stipulate that it is mandatory in principle for Clearing Participants (excluding those who obtain approval of the forfeiture of Clearing Qualification by the auction date) to make a bid in the auction; provided, however, in cases where a Clearing Participant may violate insider trading regulations, etc. and JSCC deems necessary, such Clearing Participant shall be allowed not to participate in the auction.</p> <p>-JSCC will disclose the size, bids/offers and other details of the portfolio put to the auction to clearing participants prior to the auction.</p>	<p>-Clients may participate in the auction through Clearing Participants. In such cases, Clearing Participants will remain ultimately responsible to JSCC for taking on the relevant positions if bids by the clients are successful.</p> <p>-In order to avoid constant exemption from participation in the auction, JSCC will check adequacy of the participant's operational system and structure at the time of application for CDS Clearing Qualification.</p>

Item	Details	Remarks
(3) Bid	<ul style="list-style-type: none"> -There will be no minimum or maximum bid price. -Based on the size of each clearing participant's required amount of clearing funds relative to its total amount, each clearing participant shall be required to submit one or more bids for an aggregate notional amount set by JSCC (hereinafter referred to as "Required Bid Amount"). -The sum of Required Bid Amount of all Clearing Participants in the auction shall equal to 115% of the portfolio which is put to the auction. -Each Clearing Participant is able to submit multiple bids at different prices. -Each bid that each clearing participant submits must be no smaller than 25% of the Required Bid Amount. -A clearing participant shall be able to submit bids for the amount of the portfolio which is put to the Auction in excess of its Required Bid Amount (but only up to 100% of the portfolio). 	<ul style="list-style-type: none"> -It is considered that such prices are not required because the second auction may be held, etc. -The Required Bid Amount is calculated based on the required amount of clearing funds determined just prior to the clearing participant's default. -This aims to provide JSCC with the ability to reject outlying bids. -The purpose of establishing a minimum lot size is to avoid unnecessary complexity in the auction process. -The total notional amount of each clearing participant's bids is calculated by incorporating client bids into the bids that the clearing participant submits.
(4) First Auction	<ul style="list-style-type: none"> -All bids submitted by Clearing Participants in the auction will be ordered from lowest to highest, with each bid indicating the amount. The portfolio will be allocated in pieces from the lowest to the highest bids until 100% of the portfolio is allocated, at which a single contract price is determined. -All bids that are successful, regardless of their stated price, will be recognized at a contract price for the purpose of allocating the portfolio. (According to the example on the right, the contract price is 48.) -In the case where a bid is submitted at what turns out to be the contract price, such bid can only be partially filled. -In cases where more than one Clearing Participants submit bids at the same price and such price turns out to be the contract price, 	<ul style="list-style-type: none"> -Example where 5 Clearing Participants submit bids for the auction. (note) *In practice, the bids are made in actual notional amount. *In the following case, the Clearing Participant who made the successful bid will assume the relevant portfolio amount and receive the amount of money from JSCC computed by multiplying such portfolio amount by the contract price. <p style="margin-left: 40px;">Participant 1: 10% at 36 Participant 2: 10% at 38 Participant 1: 10% at 39 Participant 5: 20% at 42 Participant 4: 10% at 43 Participant 3: 30% at 45</p>

Item	Details	Remarks
(5) Second Auction	<p>each bid shall be filled with a pro rata share of the remaining portion of the portfolio that is put to the auction based on the relative size of the bids.</p> <p>-DMC will review whether the price at which 100% of the portfolio is settled pursuant to the methodology mentioned in (4) above would result in a greater amount of expense for JSCC than if less than 100% of the portfolio were settled at the price corresponding to such lesser percentage and a second auction were held.</p> <p>-The contract price of the first auction must be the price that settles at least 80% of the portfolio.</p> <p>-In the event that the DMC were to determine that 100% of the portfolio should not be settled at the contract price produced in the first auction, the DMC may require JSCC to hold a second auction with respect to that portion of the portfolio that is not settled (hereinafter referred to as “Residual Portfolio”).</p> <p>-The second auction is held in the same manner as the first auction, provided that:</p> <p>a All the Residual Portfolio should be settled in the second auction.</p> <p>b The Required Bid Amount with regard to each Clearing Participant in the second auction is as follows:</p>	<p>Participant 4: 10% at 48 → 100% of the portfolio Participant 4: 5% at 48 Participant 1: 25% at 50 Participant 2: 15% at 50 Participant 5: 5% at 51</p> <p>-This second auction will be introduced in order to avoid the possible influence of an outlying bid on the price for settling the entire amount based on the first auction.</p> <p>-In the example above, assume that the next highest bid after Clearing Participant 3’s bid for 30% at a price of 45 is a bid for 10% at a price 60. In this example, the price for clearing 100% of the portfolio would then be 60. However, a price of 45 would settle 90% of the portfolio.</p> <p>In this case, DMC might determine the contract price at the first auction as 45 to settle 90% of the portfolio, on the assumption that the price obtained in the second auction would not be high enough to cause JSCC to have to pay the winning bidders an aggregate amount greater than it would have to pay if it settled 100% of the portfolio at the price of 60.</p> <p>-JSCC has the ability to make the final determination.</p> <p>-Example of Required Bid Amount in the second auction 1)The following conditions are assumed for the first auction: Assume that (a) 10 Clearing Participants bid in the first auction on the portfolio with a size of 1,000. (b) The Required Bid Amount in the first auction for each clearing participant equals 11.5% (i.e., 115). (c) DMC decides to settle only 90% of the portfolio</p>

Item	Details	Remarks
	<p>(a) In cases for a Clearing Participant whose amount of successful bid is more than its Required Bid Amount in the first auction: The amount obtained by subtracting the (ii) below from the (i) below.</p> <p>(i) The amount obtained by multiplying the 115% of the Residual Portfolio by the proportion of the Clearing Participant's Required Amount of Clearing Fund to the total amount of the Required Amount of Clearing Fund who participated in the first auction.</p> <p>(ii) The amount of the Clearing Participant's successful bids exceeding its Required Bid Amount.</p> <p>(b) In cases for a Clearing Participant whose amount of successful bids is no more than its Required Bid Amount in the first auction: The amount of the sum of the (i) below and the (ii) below.</p> <p>(i) The amount obtained by the same way as the (a)(i) above.</p> <p>(ii) The amount obtained by multiplying the total amount of the amounts obtained in (a)(ii) above for the Clearing Participants whose amount of successful bids is more than each of their Required Bid Amount in the first auction by the proportion of the Required Amount of Clearing Fund of the Clearing Participant whose amount of successful bids is no more than its Required Bid Amount to the total amount of the Clearing Fund of such Clearing Participants.</p> <p>-Prior to the start of the second auction, all relevant information from the first auction, including all bids submitted in the first auction (on an anonymous basis), will be made available to all Clearing Participants.</p>	<p>and to hold a second auction on the Residual Portfolio consisting of the remaining 100.</p> <p>2) If a particular Clearing Participant had submitted one or more bids in the first auction totaling 12% (120) of the portfolio and all such bids were successful, such clearing participant's Required Amount in the second auction would be 6.5.</p> <p>(i) $100 \times \text{Residual Portfolio} \times 115\% \times \frac{1}{10} \times \text{Clearing Fund proportion} = 11.5$</p> <p>(ii) $120 \times \text{Successful bids} \times 115\% \times \text{Required Bid Amount in the first auction} = 5$</p> <p>(1) - (ii) $11.5 - 5 = 6.5$</p>

<Reference Translation>

Item	Details	Remarks
(6) Handling in Case of Forfeiture of Clearing Qualification	<p>-A Clearing Participant who plans to renounce the Clearing Qualification shall be required to participate in an auction, which is related to the default of a Clearing Participant occurred before the date when such forfeiture of Clearing Qualification has been approved.</p> <p>-A Clearing Participant who has been approved to renounce the Clearing Qualification shall not be required to participate in an auction, which is related to the default of a Clearing Participant occurred after the date when the forfeiture of Clearing Qualification has been approved.</p>	<p>-In case where another Clearing Participant defaults before the approval the forfeiture of Clearing Qualification, the forfeiture of Clearing Qualification shall be approved if the condition of the approval is met through squaring positions , etc. which result from participation in auction regarding such default.</p>
3. Default processing after an auction		
(1) Negotiation on the default processing	<p>-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 Resources, JSCC and Clearing Participants will negotiate regarding default procedures in a prompt manner.</p> <p>-In cases where an agreement is reached, the default processing will be conducted accordingly.</p>	<p>-The agreement shall be made on a full consensus basis.</p> <p>-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.</p>
(2) Default processing in cases where the negotiation fails to reach an agreement	<p>-In cases where the negotiation fails to reach an agreement, auctions shall fail and all positions of all participants shall be terminated.</p>	<p>-In cases where the loss amount after second auction exceeds the Loss Compensation Resources, the first auction will be settled and all positions including those settled in the first auction shall be terminated.</p> <p>-Termination is conducted based on the settlement price on the day of the auction.</p> <p>-Even if termination is conducted, losses due to failure to pay the Variation Margin and the settlement of first auction may be incurred before termination. Such losses shall be compensated using the Loss</p>

<Reference Translation>

Item	Details	Remarks
4. Identification of links between counterparties to the original trade in cases where an auction is settled	-After a successful auction(s), JSCC shall establish the identification of new links between the Clearing Participants with regard to early termination and credit events.	<p>Compensation Resources.</p> <p>-As each clearing participant's settled amount in the auction(s) would be different from the amount of each original trade, the identification of links between counterparties to the original trade with regard to early termination and credit events cannot be maintained.</p>
5. Transfer of Clients' Position	<p>-A client of a defaulting Clearing Participant may transfer its position to another Clearing Participant.</p> <p>-A client who wishes to transfer its position shall apply to another Clearing Participant for obtain the acceptance from such Clearing Participant.</p> <p>-Transferee Clearing Participant shall submit a relevant document to JSCC regarding such transfer.</p> <p>-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 and enforcement of allocation.</p>	
6. Management of Clients' Margin	<p>-The margin from the client whose position has been transferred to another Clearing Participant, shall be handled as the margin placed with JSCC deposited by the transferee Clearing Participant being the agent.</p> <p>-The request to return the margin from the client, whose position was not transferred shall be made directly to JSCC.</p>	<p>-Such margin shall be kept by JSCC and further withdrawal and deposit shall be made through the transferee Clearing Participant.</p> <p>-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.</p>

Physical Settlement Scheme

Items	Details	Remarks
<p>1. Basic concept and scheme</p>	<p>- In cases where an ISDA auction is deemed invalid (the auction is cancelled) or where the DC decides not to hold such auction, and the final price is unable to be used in the ISDA auction, JSCC shall conduct physical settlement by the following schemes;</p> <p>1) A clearing participant who is a protection buyer after netting shall submit a notice of physical settlement to JSCC.</p> <p>2) JSCC shall allocate such physical settlement positions among participants who are protection sellers after netting.</p> <p>3) After JSCC allocates physical settlement positions among such participants, buyers and sellers shall bilaterally undertake the delivery obligation.</p> <p>4) JSCC shall receive money equivalent to the notional principal amount from the seller in advance and shall pay it to the buyer after receiving notice of fulfillment of the delivery obligation from the buyer and the seller.</p>	<p>- In cases where the final price is not determined in ISDA auction within certain period set by ISDA such auction shall be cancelled.</p> <p>- Notice of physical settlement shall be submitted to JSCC within 30 days after the ISDA auction is cancelled or the DC's decision not to hold such auction is released.</p> <p>- In cases where a clearing participant does not submit a notice of physical settlement, the relevant CDS shall be invalid.</p> <p>- JSCC shall guarantee the settlement execution for physical settlement.</p> <p>- Buyers and sellers shall submit notice of such completion to JSCC when they fulfill the delivery obligation.</p> <p>- In cases where there is any conflict between buyers and sellers with regard to the propriety of the delivery obligation or delivery procedures, etc., buyers and sellers shall be subject to the determination which JSCC conducted.</p>
<p>2. In cases where buyers do not fulfill delivery</p>	<p>- In cases where the delivery obligation is not fulfilled by the 30th business day (physical settlement day) after notice of physical settlement, in accordance with types of delivery obligation written in the notice of physical settlement, the following schemes shall be available ;</p>	<p>-In cases where the delivery/receipt obligation is completed, the buyer and seller shall notify JSCC of such completion.</p> <p>- In cases where such notice is submitted, JSCC shall conduct the procedure in the above 1.4).</p>

Items	Details	Remarks
obligation	<p>1) In cases where the delivery obligation written in the notice of physical settlement is a bond:</p> <ul style="list-style-type: none"> - Sellers may conduct purchasing of bond (hereinafter referred to as “buy-in”) (option eligible for sellers) <p>- While buyers shall not be able to fulfill the delivery obligation within the buy-in period, in cases where buy-in period ends, they shall be able to fulfill the delivery obligation again for 5 business days.</p> <ul style="list-style-type: none"> - Both buyer • seller may conduct the above processing repeatedly. <p>2) In cases where the delivery obligation written in notice of physical settlement is a loan:</p> <ul style="list-style-type: none"> - An alternative bond or loan may be delivered via specific processing (option eligible for buyers) on or following the date 5 business days after the date of cash settlement (hereinafter referred to as “start day of alternate processing”). - In cases where there are still any part of the delivery obligation unfulfilled after 15 business days counting from the start day of alternate processing, sellers shall be able to designate obligation holders and require buyers to receive the obligation from such holders and deliver to them (option eligible for sellers). 	<ul style="list-style-type: none"> - In cases where the delivery obligation is not fulfilled within 60 business days after physical settlement day, the CDS shall be deemed invalid. - In cases where buyers default before fulfilling the delivery obligation, while such position will be liquidated through portfolio settlement processing for the defaulting clearing participant, if the CDS will be deemed invalid during such settlement processing, cash settlement will be available at a final price determined by JSCC. -Seller shall send notice of buy-in to buyers by the date 2 business days prior to the buy-in period (within 5 business days after the date designated by sellers that is 5 business days after the physical settlement day) -Amount of settlement cash buyers receive from JSCC shall be an amount equal to the purchasing price of the bond, JSCC’s fees, etc. subtracted from the notional principal amount.

Clearing Fee Schedule for CDS Trades

Annex 4

Item	Fee	Remarks
1. Clearing Fee	<p>-The clearing fee is charged at JPY 800 per JPY 100 million of notional principal for an index CDS transaction whose obligation is assumed by JSCC. The maximum monthly clearing fee for each participant will be JPY 40 million. The minimum monthly clearing fee for each participant will be JPY 100,000.</p>	<p>-The clearing fee is set with reference to that of overseas CCPs while taking into account the scale of the Japanese CDS market.</p> <p>-The discount clearing fee (JPY 700 per JPY 100 million of notional principal for an index CDS trade) will be applied to clearing participants who report to the JSCC on quote prices for all eligible contracts.</p> <p>-Clearing fee for back-loading (assumption of obligation for trades executed before the start of JSCC clearing operations) is JPY 400 per JPY 100 million of notional principal for an index CDS trade.</p>
2. Other Fees	<p>-Clearing membership application fee: JPY 1 million for acquiring a CDS clearing participant qualification</p> <p>-Early-termination fee: JPY 500 per early-termination</p> <p>-Credit event settlement processing fee: JPY 500 per trade eligible for credit event settlement</p>	<p>-For those who apply for JSCC CDS clearing participant qualification by the point 6 months after the commencement of JSCC CDS clearing operations, the clearing qualification obtaining application fee shall be waived</p>

* Please note that the above fees may be adjusted before the commencement of CDS clearing operations in response to future market trends, etc.