

Outline with Regard to Clearing of Foreign Currency-Denominated Interest Rate Swaps

February 10, 2015
Japan Securities Clearing Corporation

* Underlined parts are addition to and revision after January 9, 2015 Risk Sub-Committee meeting material.

Item	Outline	Remarks
1. Subject Transaction for Clearing	<ul style="list-style-type: none"> • The following transactions will be added to Subject Transactions for Clearing of IRS Clearing Business: <ul style="list-style-type: none"> ① USD-denominated transactions Floating Rate Option for which is USD-LIBOR-BBA with Designated Maturity of 1M, 3M or 6M; ② EUR-denominated transactions Floating Rate Option for which is EUR-EURIBOR-Telerate/Reuters with Designated Maturity of 3M or 6M; and ③ AUD-denominated transactions Floating Rate Option for which is AUD-BBR-BBSW with Designated Maturity of 3M or 6M. • In addition, following JPY-denominated IRS Transactions will be added to Subject Transactions for Clearing: <ul style="list-style-type: none"> ④ Transactions Floating Rate Option for which is JPY-LIBOR-BBA with Designated Maturity of 1M; ⑤ Transactions Floating Rate Option for which is JPY-TIBOR-ZTIBOR with Designated Maturity of 1M; and ⑥ Transactions Floating Rate Option for which is JPY-TIBOR-17097 (so-called “Japanese Yen TIBOR (DTIBOR)”) with Designated Maturity of 1M. • Tenor of each contract of above transactions (number of days from submission for Clearing to Termination Date) shall be as follows: <ul style="list-style-type: none"> ① USD-denominated transactions: Up to 30 years; ② EUR-denominated transactions: Up to 20 years; 	<ul style="list-style-type: none"> • GBP-denominated transactions will not be eligible for clearing. • Foreign currency denominated zero-coupon swap will not be eligible for clearing. • For compounding transactions, excluding JPY OIS, only USD denominated transactions will be eligible for clearing. • The same procedures as those applied to JPY-denominated IRS currently subject to Clearing shall apply to JPY-denominated IRS on the left.

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	<ul style="list-style-type: none"> ③ AUD-denominated transactions: Up to 10 years; ④ JPY-denominated transactions (JPY-LIBOR-BBA): up to 40 years; ⑤ JPY-denominated transactions (JPY-TIBOR-ZTIBOR): up to 20 years; and ⑥ JPY-denominated transactions (JPY-TIBOR-17097): up to 10 years. <ul style="list-style-type: none"> • Transactions by Customers (Affiliates and Clients) shall also be eligible for clearing. 	
2. Framework for Clearing Participants	<ul style="list-style-type: none"> • A Clearing Participant qualified for IRS clearing may engage in clearing of foreign currency-denominated IRS. 	
3. Clearing Procedures (1) Method of Clearing (2) Business Holidays	<ul style="list-style-type: none"> • Clearing of foreign currency-denominated IRS shall be processed through Clearing Procedures per Trade. • Clearing Procedures per Trade shall be performed from 9:00 a.m. to noon and from 1:00 p.m. to 4:00 p.m. • With respect to foreign currency-denominated IRS, Clearing will not be performed on a JSCC business holiday even if it falls on a business day in the country of that currency. 	<ul style="list-style-type: none"> • Same as procedures for JPY-denominated IRS.
4. Variation Margin (1) Variation Margin Requirements	<ul style="list-style-type: none"> • The difference between the Net Present Value (NPV) calculated by using the yield curve as of 15:02 on a JSCC Business Day and the NPV on the previous JSCC Business Day shall be paid or received as Variation Margin. 	<ul style="list-style-type: none"> • See Item #7 for treatment of market data for yield curve generation.

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(2) Currencies to be used for payment or receipt of Variation Margin	<ul style="list-style-type: none"> Variation Margin for foreign currency-denominated IRS shall be paid or received in USD for USD-denominated trades, in EUR for EUR-denominated trades and in AUD for AUD-denominated trades. 	<ul style="list-style-type: none"> Variation Margin for JPY-denominated IRS shall be paid or received in JPY.
(3) Settlement Method	<ul style="list-style-type: none"> JSCC shall open an account for each currency at commercial banks in Japan (hereinafter referred to as “Foreign Currency VM Fund Settlement Banks”) to settle funds for Variation Margin for foreign currency-denominated IRS. A Clearing Participant that is to pay Variation Margin for foreign currency-denominated IRS shall settle funds by paying into JSCC account at the VM Fund Settlement Bank. 	<ul style="list-style-type: none"> Currently expecting to designate Mizuho Bank and Citibank as Foreign Currency VM Fund Settlement Banks. For remittance to JSCC account, remittance from Clearing Participant’s account opened at a bank other than the Foreign Currency VM Fund Settlement Banks will be made possible. Remittance method to JSCC’s account shall be either transfer to JSCC account or debit. At JSCC’s account opened at the Foreign Currency VM Fund Settlement Banks, in addition to Variation Margin, interests on Variation Margin and compression fee shall be settled.
(4) Cut-off Time for Settlement	<ul style="list-style-type: none"> Clearing Participant to pay Variation Margin for foreign currency-denominated IRS shall perform settlement by 11:00 a.m. Tokyo time. Variation Margin for foreign currency-denominated IRS payable by JSCC to receiving Clearing Participant shall be paid around 1:00 p.m. Tokyo time. Payment from JSCC to receiving Clearing Participant shall be deemed to have been settled upon debit from JSCC’s account. 	<ul style="list-style-type: none"> Clearing Participant shall send fund transfer instruction to the Foreign Currency VM Fund Settlement Bank at such timing that the transfer instruction reaches the fund settlement bank by the transfer instruction cutoff time designated by the Foreign Currency VM Fund Settlement Bank it uses.

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(5) Fund Fail	<ul style="list-style-type: none"> • With respect to foreign currency-denominated IRS, if Clearing Participant to pay Variation Margin fails to settle the Variation Margin by the settlement cutoff time due to such cause as human operational error or system failure, the settlement will be deferred to the following JSCC Business Day if JSCC can confirm that cause of such failure is not a deterioration of creditworthiness of the Clearing Participant (such deferral of settlement shall be hereinafter referred to as the “Fund Fail”). • Until the Clearing Participant causing the Fund Fail resolves such Fund Fail, the amount equivalent to the Fund Fail amount shall be added to Initial Margin requirement of the relevant Clearing Participant. • Participant caused the Fund Fail shall pay delay penalty for such Fail to JSCC. 	<ul style="list-style-type: none"> • Fund Fail shall only be permitted for one JSCC Business Day, in principle. • Specific amount and other details of delay penalty shall be reviewed separately.
(6) Treatment of Business Holidays	<ul style="list-style-type: none"> • Calculation and payment/receipt of Variation Margin requirements will not be performed on a JSCC business holiday. • With respect to foreign currency-denominated IRS, JSCC will not pay/receive Variation Margin in respect of a currency on a JSCC Business Day if such JSCC Business Day falls on a business holiday in the country of that currency. 	<ul style="list-style-type: none"> • With respect to foreign currency-denominated IRS, the treatment on the left shall apply even if it is a business day in the country of the currency. • Variation Margin equivalent on the left will be covered by Initial Margin adjustment related to holidays (see Item# 5. (3)).
5. Initial Margin (1) Initial Margin Requirements	<ul style="list-style-type: none"> • Initial Margin requirements for foreign currency-denominated IRS shall be calculated in Japanese Yen, coupled with those for JPY-denominated IRS, by generating scenarios based on changes in historical market data concerning interest rates and foreign exchange rates of a transaction to be cleared. • The yield curve used for calculation of Initial Margin shall be generated based on market data as of 3:02 p.m. on each JSCC Business Day, and the exchange rate to be used shall be the data as of 3:00 p.m. on the same day. 	<ul style="list-style-type: none"> • Initial Margin requirement calculation method for foreign currency-denominated IRS shall be the same as the one applied to JPY-denominated IRS. • See Item #7 for treatment of market data for yield curve generation.

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(2) Liquidity Charge	<ul style="list-style-type: none"> ▪ Initial Margin shall be raised as Liquidity Charge if the amount of risk for each tenor for foreign currency-denominated IRS exceeds the level at which Hedge Transactions can be executed without moving the market. ▪ The additional charge to be imposed when the risk amount exceeds the above-mentioned level shall be calculated based on a bid-ask spread determined based on a market survey as position liquidation cost. ▪ Liquidity Charge shall be calculated for each currency and added to Initial Margin. 	<ul style="list-style-type: none"> • Same as JPY-denominated IRS. • Market survey related to foreign currency-denominated IRS shall cover Clearing Participants holding positions in the relevant currency and the designated Clearing Participant for the relevant currency. • To be calculated in the same manner as JPY-denominated IRS. • Liquidity Charge for foreign currency-denominated IRS will be calculated for each currency in the same manner as JPY-denominated IRS, in principle. However, JPY equivalent will be obtained by using exchange rate calculated based on expected shortfall method in order to reflect exchange rate fluctuation risk.
(3) Additional Charges Relating to Business Holidays	<ul style="list-style-type: none"> ▪ With respect to foreign currency-denominated IRS, Initial Margin shall be adjusted when a JSCC Business Day is a business holiday in the country of the currency (Currency Holiday Margin). 	<ul style="list-style-type: none"> • To be specific, the amount equivalent to Variation Margin, interest on Variation Margin and upfront fee (hereinafter referred to as “Cash Settlement Amount”) related to the relevant currency will be added to or subtracted from Initial Margin requirement calculated on one JSCC Business Day preceding the JSCC Business Day which is the business holiday in the country of the currency (to be added to Initial Margin

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(4) Method of Deposit	<ul style="list-style-type: none"> • With respect to foreign currency-denominated IRS, when a JSCC business holiday is a business day in the country of the currency, Initial Margin shall be raised in respect of Initial Margin requirements to be calculated from evening (End Of Day) of a JSCC Business Day that comes two days before the JSCC business holiday (Tokyo Holiday Margin). • Initial Margin shall be deposited through a JSCC current account at the Bank of Japan. 	<p>requirement in respect of Cash Settlement Amount payer Participants, and to be subtracted from Initial Margin requirement in respect of Cash Settlement Amount receiver Participant). (See Reference 1)</p> <ul style="list-style-type: none"> • To be specific, interest rate and exchange rate fluctuation risk expected during JSCC business holiday will be covered through expected shortfall method. (See Reference 2) • Initial Margin requirement will be calculated in JPY together with JPY-denominated IRS. So, deposit and withdrawal will be treated in the same manner as JPY-denominated IRS. The same applies to Item #5. (5) and (6).
(5) Cut-Off Time for Deposit	<ul style="list-style-type: none"> • If the deposited Initial Margin is insufficient to meet Initial Margin requirements for the account, the shortfall must be covered by 11:00 a.m. on one JSCC Business Day after the shortfall occurs (calculation day). 	
(6) Eligible Securities Collateral	<ul style="list-style-type: none"> • Initial Margin shall be deposited in the form of Japanese Yen or Eligible Securities Collateral (Japanese government bonds and US Treasuries). 	
6. Intraday Margin (1) Deposit of Intraday Margin	<ul style="list-style-type: none"> • Intraday Margin requirements shall be the sum of an amount equivalent to Initial Margin and an amount equivalent to Variation Margin, recalculated using market data as of 11:02 a.m. each JSCC Business 	<ul style="list-style-type: none"> • Similarly as in the case of Initial Margin, requirement will be obtained in JPY together with

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(2) Cut-Off Time for Deposit	<p>Day.</p> <ul style="list-style-type: none"> • As to foreign exchange rate, data as of 11:00 a.m. on the same day shall be used. • Intraday Margin shall be deposited as Initial Margin. • If the deposited Initial Margin proves insufficient to meet Intraday Margin requirements, the shortfall must be covered by 3:30 p.m. on the day on which shortfall occurs (calculation day). 	<p>JPY-denominated IRS.</p> <ul style="list-style-type: none"> • As Intraday Margin requirement will be calculated in JPY together with JPY-denominated IRS, treatment of deposit and withdrawal shall be the same as those for JPY-denominated IRS.
<p>7. Treatment of Market Data</p> <p>(1) Yield Curve</p> <p>(2) Sources of Quotes</p>	<ul style="list-style-type: none"> • Grid points for yield curve generation related to transactions newly added to Subject Transactions for Clearing shall be as per Annex. • Clearing Participants holding position in foreign currency-denominated IRS shall submit to JSCC quotes related to currencies they hold positions to be used for requirements of Cash Settlement Amount. • Designated Clearing Participants for foreign currency-denominated IRS shall submit to JSCC quotes designated by JSCC. • In addition to the above, JSCC will obtain quotes available on 	<ul style="list-style-type: none"> • See Item #7. (4) for designated Clearing Participants for foreign currency-denominated IRS. • For quotes related to transactions newly added to Subject Transactions for Clearing, similarly as in the case of launch of JPY-denominated IRS currently subject to Clearing, application of the measures for charging additional fee as a structure to ensure reliability of quotes will be suspended for 9 months after launch (dry-run period). • Same shall apply to JPY-denominated IRS.

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(3) Handling of Quotes	<p>broker/dealer screens.</p> <ul style="list-style-type: none"> ▪ Foreign exchange rates shall be obtained from information vendors and other entities. ▪ For USD-denominated and AUD-denominated IRS, quotes as of 11:02 a.m. and 3:02 p.m. on each JSCC Business Day shall be submitted. ▪ For EUR-denominated IRS, following quotes shall be submitted <ul style="list-style-type: none"> ① Quotes as of 11:02 on each JSCC Business Day; and ② Quotes as of 5:30 p.m. (or 4:30 p.m. when day-light saving time applies in London) on each JSCC Business Day. 	<ul style="list-style-type: none"> • Foreign exchange rate as of 11:00 a.m. and 3:00 p.m. will be acquired. • Same as JPY-denominated IRS. • Closing price at London market, etc. will be submitted in light of supply-demand relationship and other factors at Tokyo market. • Quotes described in ② on the left will be applied to Intraday Margin equivalent to be calculated during hours of clearing procedure per trade from 9:00 a.m. to noon on next JSCC Business Day • For EUR-denominated IRS, quotes as of 3:02 p.m. will not be submitted, and quotes as of 11:02 a.m. will be used for calculation of Variation Margin and Initial Margin.
(4) Treatment of Designated Clearing Participant	<ul style="list-style-type: none"> ▪ Framework of designated Clearing Participants for foreign currency-denominated IRS shall be as follows: 	<ul style="list-style-type: none"> • To be structured as a separate framework from JPY-denominated IRS. • When applying to be a designated Clearing Participant for foreign currency-denominated IRS, the Clearing Participant will choose either of the frameworks on the left. • Clearing Fee discount related to foreign currency-denominated IRS shall apply to designated Clearing Participants for foreign currency-denominated IRS as an incentive.

Item	Outline	Remarks
	<p>① Designated Clearing Participant submitting quotes for all currencies; or</p> <p>② Designated Clearing Participant submitting quotes for currencies it applied to be the designated Clearing Participant (designation by currency).</p> <p>• Designated Clearing Participant for foreign currency-denominated IRS shall submit quotes for grid points applicable to tenors longer than tenors of Subject Transactions for Clearing as reference.</p>	<p>(Detailed discount level will be subject to ongoing discussion.)</p> <ul style="list-style-type: none"> • To maintain an incentive for handling more number of currencies, Clearing Fee discount will apply even if the designated Clearing Participant falling under ① on the left holds position in such currency. • For designated Clearing Participant falling under ② on the left, Clearing Fee discount shall apply according to the number of currencies it does not hold position, but submits quotes.
<p>8. Treatment of Coupon (1) Settlement Method</p>	<ul style="list-style-type: none"> • JSCC shall open a fund settlement account for each currency at overseas commercial banks (hereinafter referred to as “Foreign Currency Coupon Fund Settlement Banks”) to settle funds for coupon for foreign currency-denominated IRS and settle funds during business hours in the country of the relevant currency. • A Clearing Participant that is to pay coupon for foreign currency-denominated IRS shall settle funds by paying into JSCC account at the Foreign Currency Coupon Fund Settlement Bank. 	<ul style="list-style-type: none"> • JSCC is planning to designated Mizuho Bank (for USD, EUR and AUD) , Citibank, N.A. (for USD and EUR) and Citigroup Pty Limited (AUD) as Foreign Currency Coupon Fund Settlement Banks. • For credit to JSCC’s account, a credit from Clearing Participant’s account opened at a bank other than Foreign Currency Coupon Fund Settlement Bank will be made possible. • Remittance method to JSCC’s account shall be either transfer to JSCC account or debit. • At JSCC’s account at the Foreign Currency Coupon Fund Settlement Banks, in addition to coupon,

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(2) Cutoff Time for Settlement	<ul style="list-style-type: none"> • Clearing Participant to pay coupon for foreign currency-denominated IRS shall settle coupon payment by following cutoff time for each currency: <ul style="list-style-type: none"> USD 5:00 p.m. (New York Time) EUR 4:45 p.m. (London Time) AUD 6:00 p.m. (Sydney Time) • Payment of coupon for foreign currency-denominated IRS from JSCC to receiving Clearing Participant shall be made around following timing by each currency: <ul style="list-style-type: none"> USD 5:00 p.m. (New York Time) EUR 4:45 p.m. (London Time) AUD 6:00 p.m. (Sydney Time) • Payment from JSCC to receiving Clearing Participant shall be deemed to have been settled upon debit from JSCC's account. 	<p>upfront fee and termination fee shall also be settled.</p> <ul style="list-style-type: none"> • Clearing Participant shall send fund transfer instruction to the Foreign Currency Coupon Fund Settlement Bank at such timing that the transfer instruction reaches the fund settlement bank by the transfer instruction cutoff time designated by the Foreign Currency Coupon Fund Settlement Bank it uses.
(3) Fund Fail	<ul style="list-style-type: none"> • Similarly as in the case of Variation Margin for foreign currency-denominated IRS, structure of Fund Fail will be introduced for coupon payment for foreign currency-denominated IRS. 	
(4) Treatment of Business Holidays	<ul style="list-style-type: none"> • Settlement of coupons relating to a cleared foreign currency-denominated IRS trade shall be performed even on a JSCC business holiday. 	
9. Clearing Fund	<ul style="list-style-type: none"> • Clearing Fund requirement will be obtained together with JPY-denominated IRS through generation of stress scenarios covering each currency and multiple currencies for foreign currency-denominated 	<ul style="list-style-type: none"> • Calculation method for Clearing Fund requirement will be the same as that for JPY-denominated IRS.

Item	Outline	Remarks
	IRS.	
<p>10. Default Management Scheme</p> <p>(1) Roles of Default Management Committee</p> <p>(2) Hedge and Auction</p>	<p>• Upon default of a Clearing Participant holding foreign currency-denominated IRS, 2 Participants holding foreign currency-denominated IRS positions shall be appointed as members of Default Management Committee specialized in foreign currency-denominated IRS.</p> <p>• Members specialized in foreign currency-denominated IRS shall be appointed from Clearing Participants holding positions in any of foreign currency-denominated IRS.</p> <p>• Hedge Transaction and Auction shall be conducted for each currency.</p> <p>• Hedge Transactions and Auction timing shall be determined in light of liquidity and other factors related to IRS in each currency based on advice of Default Management Committee.</p>	<p>• Members of Default Management Committee shall remain 5.</p> <p>• Term of office of the members shall be unchanged (1year).</p> <p>• Clearing Participants which have been holding positions for 30 days preceding the update timing of Clearing Participants List for Default Management Committee shall be subject to a possible appointment.</p> <p>• See Reference 3 for detailed election method.</p> <p>• Qualifications for being a member specialized in foreign currency-denominated IRS include comprehensive risk analysis related to defaulted portfolio and capability of giving advice on hedge execution timing and parties for asking leads.</p> <p>• With respect to foreign currency-denominated IRS, Hedge Transactions may be executed or Auction may be held during the hours when market in the country of currency is open.</p> <p>• Each Clearing Participant shall notify contact of either or both of its Tokyo desk and overseas desk as hedge</p>

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<p>(3) Allocation of Loss Recovery Financial Resources</p>	<ul style="list-style-type: none"> • Mandatory participation in Auction for foreign currency denominated IRS shall be limited to currencies in which the Participant holds positions. • Loss recovery financial resources will be allocated to each currency before holding 1st Auction according to the risk amount related to IRS in each currency as follows: <ul style="list-style-type: none"> ① 1st Tier Financial Resources (Initial Margin and Clearing Fund of Defaulting Participant) and 2nd Tier Financial Resources (JSCC's contribution) Pro-rated according to Initial Margin requirement of Defaulting Clearing Participant for each currency on the day before the 1st Auction. ② 3rd Tier Financial Resources (Clearing Fund of Non-Defaulting Clearing Participants and JSCC's contribution) and 4th Tier Financial Resources (Special Clearing Charge from Non-Defaulting Clearing Participants) Pro-rated according to average of Initial Margin requirements of each non-Defaulting Clearing Participant for each currency for past 30 days counting from the day before the Auction Date. For JSCC's contribution under 3rd Tier, calculation will be made based 	<p>lead contact for foreign currency-denominated IRS in light of situation at each firm.</p> <ul style="list-style-type: none"> • Clearing Participants which have held position in the relevant currency during 3 months preceding the commencement of default management (or during 30 day period when renouncing qualification) are required to participate in Auction. • A Clearing Participant may voluntarily participate in Auction for currencies it does not hold position. • See Reference 4 for detailed allocation method. • Fifth Tier financial resources (contribution by Variation Margin receiver) will not be allocated to other currency. • Only when it is considered appropriate from overall risk management point of view, such as the allocation method on the left cannot properly reflect risks in defaulted portfolio or change of allocation method could enhance possibility of auction success, the allocation method may be changed, such as to allocate loss recovery financial resources to Auction held earlier ahead of other Auctions, based on advice of Default Management Committee.

Item	Outline	Remarks
	<p>on the average of aggregate Initial Margin requirements of all non-Defaulting Clearing Participants for each currency during the above period.</p> <ul style="list-style-type: none"> • If, for each currency, loss recovery financial resources are used up to different tiers, adjustment shall be made by distributing surplus in earlier tier loss recovery financial resources ex-post-facto to currency to which subsequent tier resources are applied. • With respect to ex-post-facto distribution to each currency, distribution amount related to the loss recovery financial resources allocated before the first Auction shall be determined on pro-rata in the same manner as in ① and ② above, and distribution amount related to the re-allocated loss recovery financial resources shall be determined on pro-rata according to Initial Margin requirement of the Defaulting Clearing Participant for the currency subject to such distribution on the day before the first Auction. 	<ul style="list-style-type: none"> • For example, if loss recovery financial resources up to 3rd Tier have been used for JPY on the one hand, but only a part of 1st Tier loss recovery financial resources have been used for other currencies, surplus from other currency (1st Tier and 2nd Tier) will be distributed ex-post-facto to Participants and JSCC contributed 3rd Tier financial resources in JPY. • Refer to Item #10. (4) and (5) for re-allocation of loss recovery financial resources. • For allocation within the same currency, Participants ranked lower in priority of use upon re-allocation under Item #10. (4) shall have priority in receiving distribution.
(4) Structure to Enhance Possibility of Auction Success	<ul style="list-style-type: none"> • In order to enhance possibility of Auction success, structure of preferential use and subordinated use of non-Defaulting Clearing Participants' Clearing Fund under 3rd Tier and non-Defaulting Clearing Participants' Special Clearing Charge under 4th Tier will be established for each currency which is similar to current procedures. • When Auctions are held at separate timings for each currency and there is any surplus in earlier tier loss recovery financial resources for 	<ul style="list-style-type: none"> • Under current scheme, order of use of loss recovery financial resources is (i) no bid Participant, (ii) Participant submitted bid at price significantly divergent from prevailing market, (iii) Participants submitted bid (other than Participant falling under (ii)), and (iv) successful bidder. • To be allocated according to the Initial Margin requirement of Defaulting Clearing Participant for

Item	Outline	Remarks
	<p>currency for which Auction was held earlier and successfully concluded, such surplus will be re-allocated to other currencies, and then Auction will be held.</p> <ul style="list-style-type: none"> • When such surplus is re-allocated to other currencies, 3rd Tier resources and 4th Tier resources shall be used in the following order: <ul style="list-style-type: none"> ① Initially allocated resources of Clearing Participant required to participate in Auction for the relevant currency; ② Re-allocated resources of Clearing Participant required to participate in Auction for the relevant currency; and ③ Re-allocated resources of Clearing Participant not required to participate in Auction for the relevant currency. 	<p>each currency on the day before 1st Auction Date.</p> <ul style="list-style-type: none"> • As to JSCC's contribution to 3rd Tier financial resources, the order of use shall be the same as ① on the left for initially allocated resources and the same as ② and ③ on the left for the re-allocated resources. • Order of use within layers on the left shall be the same as current procedures. (See Reference 5)
(5) Treatment when Auction is Unsuccessful	<ul style="list-style-type: none"> • Auction success shall be judged by each currency. • For currency for which Auction is unsuccessful, either of the following measures shall be taken in light of the advice of Default Management Committee: <ul style="list-style-type: none"> ① Re-allocate remaining loss recovery financial resources, and hold 	<ul style="list-style-type: none"> • If, at an Auction for a currency, loss cannot be recovered by loss recovery financial resources allocated to that currency, Auction for the relevant currency is unsuccessful. • When Auctions for all currencies are to be held simultaneously, if initially allocated financial resources for a certain currency are found to be insufficient, Auction success shall be judged after re-allocation of remaining portion of loss recovery financial resources allocated to currency for which resources are sufficient. • See Reference 6 for detailed flow from Auction to loss recovery. • Pro-rated according to Initial Margin requirement of

Item	Outline	Remarks
	<p>re-Auction for currency for which Auction was unsuccessful; or</p> <p>② Hold a consultation.</p> <ul style="list-style-type: none"> • If an agreement on settlement method is reached through consultation, default shall be settled according to the agreed scheme. • If an agreement on settlement method cannot be reached through consultation, positions in the IRS in the relevant currency shall be liquidated. 	<p>Defaulting Clearing Participant for each currency on the day before 1st Auction Date.</p> <ul style="list-style-type: none"> • Order of use of re-allocated resources is the same as the order of user upon re-allocation under Item #10. (4). • Same as current procedures. • Same as current procedures.
11. Fee Schedule	<ul style="list-style-type: none"> • A fee shall be charged for clearing of foreign currency-denominated IRS. 	<ul style="list-style-type: none"> • Detailed structure and rates will be discussed separately.
12. Implementation Timing	<ul style="list-style-type: none"> • Around September 2015. (Subject to Authorization of Commissioner of Financial Services Agency.) 	

End of Document

Grid Points for Yield Curve Generation related to Foreign Currency-Denominated IRS, etc.

Grid Points for USD-LIBOR-BBA

1.USD OIS Curve	
Products	Rates
Fedfunds	O/N
OIS	1W (Fix vs Fedfunds)
OIS	1M (Fix vs Fedfunds)
OIS	2M (Fix vs Fedfunds)
OIS	3M (Fix vs Fedfunds)
OIS	4M (Fix vs Fedfunds)
OIS	5M (Fix vs Fedfunds)
OIS	6M (Fix vs Fedfunds)
OIS	9M (Fix vs Fedfunds)
OIS	1Y (Fix vs Fedfunds)
OIS	18M (Fix vs Fedfunds)
OIS	2Y (Fix vs Fedfunds)
Basis Swap	3Y (3M LIBOR vs Fedfunds)
Basis Swap	4Y (3M LIBOR vs Fedfunds)
Basis Swap	5Y (3M LIBOR vs Fedfunds)
Basis Swap	6Y (3M LIBOR vs Fedfunds)
Basis Swap	7Y (3M LIBOR vs Fedfunds)
Basis Swap	8Y (3M LIBOR vs Fedfunds)
Basis Swap	9Y (3M LIBOR vs Fedfunds)
Basis Swap	10Y (3M LIBOR vs Fedfunds)
Basis Swap	12Y (3M LIBOR vs Fedfunds)
Basis Swap	15Y (3M LIBOR vs Fedfunds)
Basis Swap	20Y (3M LIBOR vs Fedfunds)
Basis Swap	25Y (3M LIBOR vs Fedfunds)
Basis Swap	30Y (3M LIBOR vs Fedfunds)
Basis Swap	40Y (3M LIBOR vs Fedfunds)
Basis Swap	50Y (3M LIBOR vs Fedfunds)

2.USD 1M-LIBOR	
Products	Rates
FRA (Fixing)	0 x 1, LIBOR
FRA	1 x 2, LIBOR
FRA	2 x 3, LIBOR
FRA	5 x 6, LIBOR
FRA	8 x 9, LIBOR
Basis Swap	1Y (1M vs 3M), LIBOR
Basis Swap	18M (1M vs 3M), LIBOR
Basis Swap	2Y (1M vs 3M), LIBOR
Basis Swap	3Y (1M vs 3M), LIBOR
Basis Swap	4Y (1M vs 3M), LIBOR
Basis Swap	5Y (1M vs 3M), LIBOR
Basis Swap	6Y (1M vs 3M), LIBOR
Basis Swap	7Y (1M vs 3M), LIBOR
Basis Swap	8Y (1M vs 3M), LIBOR
Basis Swap	9Y (1M vs 3M), LIBOR
Basis Swap	10Y (1M vs 3M), LIBOR
Basis Swap	12Y (1M vs 3M), LIBOR
Basis Swap	15Y (1M vs 3M), LIBOR
Basis Swap	20Y (1M vs 3M), LIBOR
Basis Swap	25Y (1M vs 3M), LIBOR
Basis Swap	30Y (1M vs 3M), LIBOR
Basis Swap	40Y (1M vs 3M), LIBOR
Basis Swap	50Y (1M vs 3M), LIBOR

3.USD 3M-LIBOR	
Products	Rates
FRA (Fixing)	0 x 3, LIBOR
FRA	3 x 6, LIBOR
FRA	6 x 9, LIBOR
Swap	1Y 3M/6M(Fix, 30/360), LIBOR
Swap	18M 3M/6M(Fix, 30/360), LIBOR
Swap	2Y 3M/6M(Fix, 30/360), LIBOR
Swap	3Y 3M/6M(Fix, 30/360), LIBOR
Swap	4Y 3M/6M(Fix, 30/360), LIBOR
Swap	5Y 3M/6M(Fix, 30/360), LIBOR
Swap	6Y 3M/6M(Fix, 30/360), LIBOR
Swap	7Y 3M/6M(Fix, 30/360), LIBOR
Swap	8Y 3M/6M(Fix, 30/360), LIBOR
Swap	9Y 3M/6M(Fix, 30/360), LIBOR
Swap	10Y 3M/6M(Fix, 30/360), LIBOR
Swap	12Y 3M/6M(Fix, 30/360), LIBOR
Swap	15Y 3M/6M(Fix, 30/360), LIBOR
Swap	20Y 3M/6M(Fix, 30/360), LIBOR
Swap	25Y 3M/6M(Fix, 30/360), LIBOR
Swap	30Y 3M/6M(Fix, 30/360), LIBOR
Swap	40Y 3M/6M(Fix, 30/360), LIBOR
Swap	50Y 3M/6M(Fix, 30/360), LIBOR

4.USD 6M-LIBOR	
Products	Rates
FRA (Fixing)	0 x 6, LIBOR
FRA	3 x 9, LIBOR
Basis Swap	1Y (3M vs 6M), LIBOR
Basis Swap	18M (3M vs 6M), LIBOR
Basis Swap	2Y (3M vs 6M), LIBOR
Basis Swap	3Y (3M vs 6M), LIBOR
Basis Swap	4Y (3M vs 6M), LIBOR
Basis Swap	5Y (3M vs 6M), LIBOR
Basis Swap	6Y (3M vs 6M), LIBOR
Basis Swap	7Y (3M vs 6M), LIBOR
Basis Swap	8Y (3M vs 6M), LIBOR
Basis Swap	9Y (3M vs 6M), LIBOR
Basis Swap	10Y (3M vs 6M), LIBOR
Basis Swap	12Y (3M vs 6M), LIBOR
Basis Swap	15Y (3M vs 6M), LIBOR
Basis Swap	20Y (3M vs 6M), LIBOR
Basis Swap	25Y (3M vs 6M), LIBOR
Basis Swap	30Y (3M vs 6M), LIBOR
Basis Swap	40Y (3M vs 6M), LIBOR
Basis Swap	50Y (3M vs 6M), LIBOR

Grid Points for EUR-EURIBOR-Telerate/Reuters

5.EUR OIS Curve	
Products	Rates
EONIA	O/N
OIS	1W (Fix vs EONIA)
OIS	1M (Fix vs EONIA)
OIS	2M (Fix vs EONIA)
OIS	3M (Fix vs EONIA)
OIS	4M (Fix vs EONIA)
OIS	5M (Fix vs EONIA)
OIS	6M (Fix vs EONIA)
OIS	9M (Fix vs EONIA)
OIS	1Y (Fix vs EONIA)
OIS	18M (Fix vs EONIA)
OIS	2Y (Fix vs EONIA)
Basis Swap	3Y (3M EURIBOR vs EONIA)
Basis Swap	4Y (3M EURIBOR vs EONIA)
Basis Swap	5Y (3M EURIBOR vs EONIA)
Basis Swap	6Y (3M EURIBOR vs EONIA)
Basis Swap	7Y (3M EURIBOR vs EONIA)
Basis Swap	8Y (3M EURIBOR vs EONIA)
Basis Swap	9Y (3M EURIBOR vs EONIA)
Basis Swap	10Y (3M EURIBOR vs EONIA)
Basis Swap	12Y (3M EURIBOR vs EONIA)
Basis Swap	15Y (3M EURIBOR vs EONIA)
Basis Swap	20Y (3M EURIBOR vs EONIA)
Basis Swap	25Y (3M EURIBOR vs EONIA)
Basis Swap	30Y (3M EURIBOR vs EONIA)
Basis Swap	40Y (3M EURIBOR vs EONIA)
Basis Swap	50Y (3M EURIBOR vs EONIA)

6.EUR 3M-EURIBOR	
Products	Rates
FRA (Fixing)	0 x 3, EURIBOR
FRA	3 x 6, EURIBOR
FRA	6 x 9, EURIBOR
Basis Swap	1Y (3M vs 6M), EURIBOR
Basis Swap	18M (3M vs 6M), EURIBOR
Basis Swap	2Y (3M vs 6M), EURIBOR
Basis Swap	3Y (3M vs 6M), EURIBOR
Basis Swap	4Y (3M vs 6M), EURIBOR
Basis Swap	5Y (3M vs 6M), EURIBOR
Basis Swap	6Y (3M vs 6M), EURIBOR
Basis Swap	7Y (3M vs 6M), EURIBOR
Basis Swap	8Y (3M vs 6M), EURIBOR
Basis Swap	9Y (3M vs 6M), EURIBOR
Basis Swap	10Y (3M vs 6M), EURIBOR
Basis Swap	12Y (3M vs 6M), EURIBOR
Basis Swap	15Y (3M vs 6M), EURIBOR
Basis Swap	20Y (3M vs 6M), EURIBOR
Basis Swap	25Y (3M vs 6M), EURIBOR
Basis Swap	30Y (3M vs 6M), EURIBOR
Basis Swap	40Y (3M vs 6M), EURIBOR
Basis Swap	50Y (3M vs 6M), EURIBOR

7.EUR 6M-EURIBOR	
Products	Rates
FRA (Fixing)	0 x 6, EURIBOR
FRA	3 x 9, EURIBOR
Swap	1Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	18M 6M/1Y(Fix, 30/360), EURIBOR
Swap	2Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	3Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	4Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	5Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	6Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	7Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	8Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	9Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	10Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	12Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	15Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	20Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	25Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	30Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	40Y 6M/1Y(Fix, 30/360), EURIBOR
Swap	50Y 6M/1Y(Fix, 30/360), EURIBOR

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Grid Points for AUD-BBR-BBSW

8.AUD OIS Curve	
Products	Rates
AONIA	O/N
OIS	1W (Fix vs AONIA)
OIS	1M (Fix vs AONIA)
OIS	2M (Fix vs AONIA)
OIS	3M (Fix vs AONIA)
OIS	4M (Fix vs AONIA)
OIS	5M (Fix vs AONIA)
OIS	6M (Fix vs AONIA)
OIS	9M (Fix vs AONIA)
OIS	1Y (Fix vs AONIA)
OIS	18M (Fix vs AONIA)
OIS	2Y (Fix vs AONIA)
Basis Swap	3Y (3M BBSW vs AONIA)
Basis Swap	4Y (3M BBSW vs AONIA)
Basis Swap	5Y (3M BBSW vs AONIA)
Basis Swap	6Y (3M BBSW vs AONIA)
Basis Swap	7Y (3M BBSW vs AONIA)
Basis Swap	8Y (3M BBSW vs AONIA)
Basis Swap	9Y (3M BBSW vs AONIA)
Basis Swap	10Y (3M BBSW vs AONIA)
Basis Swap	12Y (3M BBSW vs AONIA)
Basis Swap	15Y (3M BBSW vs AONIA)
Basis Swap	20Y (3M BBSW vs AONIA)
Basis Swap	25Y (3M BBSW vs AONIA)
Basis Swap	30Y (3M BBSW vs AONIA)

9.AUD 3M-BBSW	
Products	Rates
FRA (Fixing)	0 x 3, BBSW
FRA	3 x 6, BBSW
FRA	6 x 9, BBSW
Swap	1Y 3M/3M(Fix, Act/365), BBSW
Swap	18M 3M/3M(Fix, Act/365), BBSW
Swap	2Y 3M/3M(Fix, Act/365), BBSW
Swap	3Y 3M/3M(Fix, Act/365), BBSW
Basis Swap	4Y (3M vs 6M), BBSW
Basis Swap	5Y (3M vs 6M), BBSW
Basis Swap	6Y (3M vs 6M), BBSW
Basis Swap	7Y (3M vs 6M), BBSW
Basis Swap	8Y (3M vs 6M), BBSW
Basis Swap	9Y (3M vs 6M), BBSW
Basis Swap	10Y (3M vs 6M), BBSW
Basis Swap	12Y (3M vs 6M), BBSW
Basis Swap	15Y (3M vs 6M), BBSW
Basis Swap	20Y (3M vs 6M), BBSW
Basis Swap	25Y (3M vs 6M), BBSW
Basis Swap	30Y (3M vs 6M), BBSW

10.AUD 6M-BBSW	
Products	Rates
FRA (Fixing)	0 x 6, BBSW
FRA	3 x 9, BBSW
Basis Swap	1Y (3M vs 6M), BBSW
Basis Swap	18M (3M vs 6M), BBSW
Basis Swap	2Y (3M vs 6M), BBSW
Basis Swap	3Y (3M vs 6M), BBSW
Swap	4Y 6M/6M(Fix, Act/365), BBSW
Swap	5Y 6M/6M(Fix, Act/365), BBSW
Swap	6Y 6M/6M(Fix, Act/365), BBSW
Swap	7Y 6M/6M(Fix, Act/365), BBSW
Swap	8Y 6M/6M(Fix, Act/365), BBSW
Swap	9Y 6M/6M(Fix, Act/365), BBSW
Swap	10Y 6M/6M(Fix, Act/365), BBSW
Swap	12Y 6M/6M(Fix, Act/365), BBSW
Swap	15Y 6M/6M(Fix, Act/365), BBSW
Swap	20Y 6M/6M(Fix, Act/365), BBSW
Swap	25Y 6M/6M(Fix, Act/365), BBSW
Swap	30Y 6M/6M(Fix, Act/365), BBSW

Grid Points for JPY-LIBOR-BBA

11.JPY 1M-LIBOR	
Products	Rates
FRA (Fixing)	0 x 1, LIBOR
Swap	3M1M
Swap	6M1M
Swap	9M1M
Basis Swap	1Y (1M vs 6M), LIBOR
Basis Swap	18M (1M vs 6M), LIBOR
Basis Swap	2Y (1M vs 6M), LIBOR
Basis Swap	3Y (1M vs 6M), LIBOR
Basis Swap	4Y (1M vs 6M), LIBOR
Basis Swap	5Y (1M vs 6M), LIBOR
Basis Swap	6Y (1M vs 6M), LIBOR
Basis Swap	7Y (1M vs 6M), LIBOR
Basis Swap	8Y (1M vs 6M), LIBOR
Basis Swap	9Y (1M vs 6M), LIBOR
Basis Swap	10Y (1M vs 6M), LIBOR
Basis Swap	12Y (1M vs 6M), LIBOR
Basis Swap	15Y (1M vs 6M), LIBOR
Basis Swap	20Y (1M vs 6M), LIBOR
Basis Swap	25Y (1M vs 6M), LIBOR
Basis Swap	30Y (1M vs 6M), LIBOR
Basis Swap	35Y (1M vs 6M), LIBOR
Basis Swap	40Y (1M vs 6M), LIBOR

Grid Points for JPY-TIBOR-ZTIBOR

12.JPY 1M-ZTIBOR	
Products	Rates
FRA (Fixing)	0 x 1, ZTIBOR
Swap	3M1M
Swap	6M1M
Swap	9M1M
Basis Swap	1Y (1M vs 6M), ZTIBOR
Basis Swap	18M (1M vs 6M), ZTIBOR
Basis Swap	2Y (1M vs 6M), ZTIBOR
Basis Swap	3Y (1M vs 6M), ZTIBOR
Basis Swap	4Y (1M vs 6M), ZTIBOR
Basis Swap	5Y (1M vs 6M), ZTIBOR
Basis Swap	6Y (1M vs 6M), ZTIBOR
Basis Swap	7Y (1M vs 6M), ZTIBOR
Basis Swap	8Y (1M vs 6M), ZTIBOR
Basis Swap	9Y (1M vs 6M), ZTIBOR
Basis Swap	10Y (1M vs 6M), ZTIBOR
Basis Swap	12Y (1M vs 6M), ZTIBOR
Basis Swap	15Y (1M vs 6M), ZTIBOR
Basis Swap	20Y (1M vs 6M), ZTIBOR
Basis Swap	25Y (1M vs 6M), ZTIBOR
Basis Swap	30Y (1M vs 6M), ZTIBOR
Basis Swap	35Y (1M vs 6M), ZTIBOR
Basis Swap	40Y (1M vs 6M), ZTIBOR

Grid Points for JPY-TIBOR-17087

13.JPY 1M-DTIBOR	
Products	Rates
Basis Swap	1M (1M vs 1M), D-Z SP
Basis Swap	3M (1M vs 1M), D-Z SP
Basis Swap	6M (1M vs 1M), D-Z SP
Basis Swap	9M (1M vs 1M), D-Z SP
Basis Swap	1Y (1M vs 1M), D-Z SP
Basis Swap	18M (1M vs 1M), D-Z SP
Basis Swap	2Y (1M vs 1M), D-Z SP
Basis Swap	3Y (1M vs 1M), D-Z SP
Basis Swap	4Y (1M vs 1M), D-Z SP
Basis Swap	5Y (1M vs 1M), D-Z SP
Basis Swap	6Y (1M vs 1M), D-Z SP
Basis Swap	7Y (1M vs 1M), D-Z SP
Basis Swap	8Y (1M vs 1M), D-Z SP
Basis Swap	9Y (1M vs 1M), D-Z SP
Basis Swap	10Y (1M vs 1M), D-Z SP
Basis Swap	12Y (1M vs 1M), D-Z SP
Basis Swap	15Y (1M vs 1M), D-Z SP
Basis Swap	20Y (1M vs 1M), D-Z SP
Basis Swap	25Y (1M vs 1M), D-Z SP
Basis Swap	30Y (1M vs 1M), D-Z SP
Basis Swap	35Y (1M vs 1M), D-Z SP
Basis Swap	40Y (1M vs 1M), D-Z SP

Currency Holiday Margin

● When JSCC Business Day is Business Holiday in Country of Currency

- For a business holiday in country of relevant currency (hereinafter “Currency Country”), settlement of VM, interest on VM and upfront fee (hereinafter “Cash Settlement Amount”) in relevant currency is difficult, but fluctuation of NPV of position in the relevant currency evaluated using the latest market data must be properly captured from risk management point of view.
- ⇒ Add/subtract Cash Settlement Amount equivalent in the relevant currency to/from IM requirements calculated at evening (End Of Day: hereinafter “EOD”) on one JSCC Business Day preceding JSCC Business Day that is a holiday in Currency Country (i.e., to be added to IM requirements for Cash Settlement Amount payer and subtracted from IM requirements for Cash Settlement Amount receiver).
- ⇒ Adjustment amount shall be calculated by converting relevant Cash Settlement Amount into JPY based on exchange rate as of 3:00 p.m. on calculation date.

Specific Example

(2014)

		May 23 (Fri)	May 26 (Mon)
City	Tokyo	○	○
	NY	○	×
Fund Settlement (Currency - Place of Settlement)	Cash Settlement Amount (USD – Tokyo)	○	● (No Payment/Receipt of Cash Settlement Amount)
	Coupon (USD-NY)	○	×
IM Adjustment of Cash Settlement Amount Equivalent related to Relevant Currency		—	● (Calculated at EOD on May 23)

○ : Business Day or Good Day for Settlement × : Business Holiday or Bad Day for Settlement
 ● : Subject to Holiday Adjustment

Detailed Illustration of Figures ^{*1}	May 22 (Thu)	May 23 (Fri)	May 26 (Mon)
NPV (as of EOD)	USD 110	USD 105	
Cash Settlement Amount ^{*2}			0 (Should have been USD -5)
IM Adjustment of Cash Settlement Amount Equivalent related to Relevant Currency ^{*3} (Calculated by Converting into JPY)	—		JPY -500 (USD -5 x 100 ^{*4})

JPY500 to be added to IM because Participant is to pay Cash Settlement Amount. equivalent

- *1 Figures in above chart are hypothetical.
- *2 Expressed as negative value if payer of Cash Settlement Amount.
- *3 Expressed as negative value if payer of such VM equivalent.
- *4 Assuming USD 1 = JPY100.

Tokyo Holiday Margin

● When JSCC Business Holiday is Business Day in Country of Currency

- When the country of the currency (hereinafter “Currency Country”) is open on a JSCC business holiday, JSCC is unable to capture risks, such as interest rate fluctuation risk expected at market in Currency Country and exchange rate fluctuation risk, (hereinafter “Fluctuation Risk”) and difficult to promptly reflect such Fluctuation Risk to IM, etc. Therefore, covering such Fluctuation Risk in advance on JSCC Business Day preceding JSCC business holiday is considered necessary from risk management point of view.
- ⇒ In order to cover Fluctuation Risk in Currency Country, charge calculated through expected shortfall method will be added to IM requirements to be calculated after evening (End Of Day: hereinafter “EOD”) on JSCC Business Day that is two days preceding JSCC business holiday.

Specific Example

(2014)

		July 18 (Fri)	July 21 (Mon)	July 22 (Tue)
City	Tokyo	○	×	○
	NY	○	○	○
Fund Settlement (Currency - Place of Settlement)	Cash Settlement Amount (USD-Tokyo)	○	×	○
	Coupon (USD-NY)	○	○	○
Additional IM for Tokyo Holiday		● (Additional charge to apply from EOD on July 17)	—	—

○ : Business Day or Good Day for Settlement × : Business Holiday or Bad Day for Settlement
 ● : Subject to Holiday Adjustment

Detailed Illustration of Figures*	July 18 (Fri)	July 21 (Mon)	July 22 (Tue)
Initial Margin	JPY 105	—	JPY 107
Additional IM for JSCC Business Holiday	JPY 10	—	—
IM after Additional Charge	JPY 115	—	JPY 107

* Figures in above chart are hypothetical.

In order to cover Fluctuation Risk in Currency Country on JSCC business holiday (July 21), IM requirements calculated after EOD on two JSCC Business Days preceding such date will be subject to additional charge.

Default Management Committee Member Election Method for Foreign Currency Denominated IRS Transactions

- Upon default of Clearing Participant holding foreign currency IRS positions, 2 committee members specialized in foreign currency IRS are to be appointed as default management process for foreign currency IRS would become necessary.
- Clearing Participants appointed as committee members specialized in foreign currency IRS shall send a person qualified for member requirement to Default Management Committee (DMC) who will give advice on default management for foreign currency denominated IRS.

(Concrete Illustration)

- In a situation where DMC members are Participants A through E (all holding JPY IRS position only), when default of Participant Z holding any of foreign currency IRS positions occurs, DMC members will be appointed in the following manner:

① As foreign currency IRS become subject to default management, 2 Clearing Participants holding any of foreign currency IRS positions need to be appointed as DMC members specialized in foreign currency IRS.

② To appoint members specialized in foreign currency IRS mentioned in above ①, Participants listed next to current members and also holding positions in any of foreign currency IRS, namely Participants F & G, will be appointed as members specialized in foreign currency IRS.

(Participants F & G will be appointed in advance as candidates which maybe appointed as committee members specialized in foreign currency IRS.)

③ In association with process ②, 2 members listed lower orders on the list, namely Participants D & E, will be removed from committee members, who will be replaced by Participants F & G on the list.

- Appointment method in other expected cases:

- If one of the committee members at the time of default occurrence holds position in any of foreign currency IRS, committee member appointed through above method will be one rather than two.
- If two of the committee members at the time of default occurrence hold position in any of foreign currency IRS, such two members will become committee members specialized in foreign currency IRS.
- If 3 or more of the committee members at the time of default occurrence hold position in any of foreign currency IRS, members listed earlier on the list will become committee members specialized in foreign currency IRS.

Participants List for DMC

Participant	JPY	USD	EUR	AUD
A	○			
B	○			
C	○			
D	○			
E	○			
F	○	○		
G	○		○	
H	○			○
...
Defaulter	JPY	USD	EUR	AUD
Z	○	○	○	○

Members upon Default Occurrence (Participants A to E)

Member Substitution

○: Currency with positions

Allocation of Loss Recovery Financial Resources

- Loss recovery financial resources are allocated to each currency before 1st Auction according to risk amount in IRS denominated in each currency as follows:

Priority	Financial Resources	Allocation Method to each Currency Auction
1st Tier	Defaulter's Margin & Clearing Fund	Allocate on pro-rata according to IM requirement for each currency on the day before 1st Auction
2nd Tier	JSCC's Contribution (JPY2bil)	
3rd Tier	JSCC's Contribution (JPY2bil)	Allocate on pro-rata according to average of aggregate IM requirements for each currency of all survivors for past 30 days counting from the day before the Auction Date
	Survivors' Clearing Fund	Allocate on pro-rata according to average IM requirement of each survivor for each currency for past 30 days counting from the day before the Auction Date
4th Tier	Survivors' Special Clearing Charge	
5th Tier	Contribution by VM Receiver	Utilize only within relevant currency, no allocation (not to be used for other currency)

- Only when it is considered appropriate from overall risk management point of view, such as where portfolio risk cannot be properly reflected by above allocation method, and change of financial resources allocation method would improve possibility of Auction success, the allocation method may be changed, such as to prioritize allocation of loss recovery financial resources to Auction conducted earlier, based on advice of Default Management Committee.

Preferential Use and Subordinated Use related to Re-Allocation of Loss Recovery Financial Resources

- At Auction for a currency for which originally allocated financial resources are insufficient to recover losses when holding Auctions simultaneously for all currencies, subsequent Auctions when Auctions are conducted at separate timings for each currency or re-Auction for failed Auction due to insufficiency of financial resources (hereinafter “Re-Auction”), remaining financial resources for currencies for which financial resources are sufficient will be re-allocated to currencies subject to Re-Auction.
- In such case, order of use of 3rd Tier resources and 4th Tier resources shall be as per below chart.

Order of Use (*1)	
1	Financial resources contributed according to initial allocation by Clearing Participants which are required to participate in Auction for currency subject to Re-Auction
2	Financial resources contributed according to re-allocation by Clearing Participants which are required to participate in Auction for currency subject to Re-Auction
3	Financial resources contributed according to re-allocation by Clearing Participants which are not required to participate in Auction for currency subject to Re-Auction

Priority High

↓

Low

*1: To facilitate participation in Auction, priority will be further set within each layer according to the following:

1st Priority : No bid Participant

2nd Priority: Participant submitted bid at price significantly divergent from prevailing market (*2)

3rd Priority: Participants submitted bid (other than successful bidder and Participant submitted bid at price significantly divergent from prevailing market)

4th Priority: Successful bidder

*2 Price significantly divergent from prevailing market means the price which would make loss incurred by JSCC if auction successfully concludes with such price as successful bid price exceed loss recovery financial resources (up to 3rd Tier when determining priority or subordinate use of 3rd Tier financial resources, and up to 4th Tier when determining priority or subordinate use of 4th Tier financial resources).

Flow from Auction to Loss Recovery

① Allocate Loss Recovery Financial Resources to Auction in each Currency

Hold Auction

② Based on advice from Default Management Committee, Auction is to be held through either of the following methods:
(A) Hold Auctions simultaneously for all currencies(*1), (B) Hold Auctions at separate timings for each currency (*2)

Judge Auction Success

(*2) Re-allocate remaining financial resources (1st to 4th tier) from prior successful Auctions as much as possible according to IM requirement of Defaulter for each currency on the day before Auction Date, then hold subsequent Auction.

(*1) Prorate remaining resources for currencies for which resources are sufficient (1st to 4th Tier) according to IM requirement of Defaulter for each currency on the day before 1st Auction and re-allocate to currency for which originally allocated resources are insufficient.

When entire loss cannot be recovered by use of Financial Resources up to 5th Tier if Auction is concluded, such Auction is failed.
(Same as Current Procedures)

A. Auction Successful for All Currencies (*)

(*) When conducting Re-Auction, currency subject to such Re-Auction

(a) Re-Auction

B. Auction Failed for Some Currencies

If Auction closed unsuccessfully based on advice from Default Management Committee, conduct either:
(a) Allocate remaining financial resources once again(*3) and hold another Auction for failed currency(*4); or
(b) Hold consultation.

(b) Consultation

C. Auction Failed for All Currencies (*)

(*) When conducting re-Auction, currency subject to such Auction

Consultation

Agreement Reached on Settlement Method

Consultation Failed on Settlement Method

Settlement through Agreed Scheme

Position Liquidation for Currency subject to Auction

(*3) Re-allocate remaining financial resources (1st to 4th tier) from successful Auctions as much as possible according to IM requirement of Defaulter for each currency on the day before Auction Date.

Currencies for which Auctions are Successful

*4: Only when Auctions were held at separate timings for each currency

Loss Recovery

* For 3rd Tier and 4th Tier Resources, apply concept of Priority of Use

* If there is any surplus in prior Tiers resources used for other currency, adjustment shall be made by distributing ex-post-facto such surplus to currencies used lower tier resources.