

Outlines of OTC JGB Clearing Business to Cover Inflation-Indexed Japanese Government Bonds

November 25, 2015
Japan Securities Clearing Corporation

The Ministry of Finance resumed the issuance of Inflation-Indexed Bonds in 2013, and the outstanding volume is expected to grow going forward. In light of such an environment, JSCC will add Inflation-Indexed Bonds to the Eligible Products subject to Clearing under OTC JGB Clearing Business.

Item	Outline	Remarks
<p>1. Transaction subject to Clearing</p> <p>(1) Eligible Products and Eligible Issues</p> <p>(2) Transaction subject to Clearing</p>	<ul style="list-style-type: none"> • Inflation-Indexed Bonds will be added as the financial instruments comprising Transaction subject to Clearing under OTC JGB Clearing Business. • Out of Transactions involving Inflation-Indexed Bonds, the Transactions subject to Clearing shall be those listed below and satisfying the criteria set forth in each of the relevant items: <ul style="list-style-type: none"> (i) Buying and Selling <ul style="list-style-type: none"> a. The settlement day arrives on or before the day immediately preceding the corresponding day after one (1) month from the contract day; b. The quantity is hundred thousand (100,000) yen face value multiplied by a whole number; and c. The Indexation Coefficient of the settlement day has been fixed. 	<ul style="list-style-type: none"> • Out of Inflation-Indexed Bonds, any issue up to Issue No. 16 issued in or before 2008 will be excluded from the Eligible Products subject to Clearing in light of difference in product features and maturity (to be redeemed by June 2018) from Issue No. 17 and subsequent issues. • See Annex 1 for clearing start timing for newly issued bonds in light of the criteria listed on the left column in relation to Inflation-Indexed Bonds.

Item	Outline	Remarks
	<p>(ii) Cash-secured Bond Lending Transaction</p> <ul style="list-style-type: none"> a. The Ending Transaction delivery day arrives on or before the corresponding day after one (1) year from the contract day; b. The quantity is hundred thousand (100,000) yen face value multiplied by a whole number; c. The Indexation Coefficient of the Starting Transaction delivery day has been fixed; d. The Ending Transaction delivery day has been fixed; and e. The standard cash collateral rate is one hundred (100) percent. <p>(iii) Repo Transaction</p> <ul style="list-style-type: none"> a. The Ending Transaction delivery day arrives on or before the corresponding day after one (1) year from the contract day; b. The quantity is hundred thousand (100,000) yen face value multiplied by a whole number; c. The Indexation Coefficient of the Starting Transaction delivery day has been fixed; d. The Ending Transaction delivery day has been fixed; e. The transaction is Repo Transaction with accrued interest; f. The transaction does not involve re-pricing; and g. Ratio of calculating the selling and buying amount is zero (0). 	<ul style="list-style-type: none"> • The Indexation Coefficient of the Ending Transaction delivery day is not required to be fixed. • The Indexation Coefficient of the Ending Transaction delivery day is not required to be fixed.

Item	Outline	Remarks
(3) Subsequent Collateral Allocation Repos	<ul style="list-style-type: none"> ▪ Inflation-Indexed Bonds are eligible for Subsequent Collateral Allocation Repos. 	<ul style="list-style-type: none"> ▪ Handling of Inflation-Indexed Bonds as a component of basket for Subsequent Collateral Allocation Repo will be determined after consultation with market participants and other parties concerned at certain point in time before implementation of the scheme (by summer 2017). (See Reference for currently expected plan).
2. Assumption of Obligation	<ul style="list-style-type: none"> ▪ As to transactions involving Inflation-Indexed Bonds, only the Clearing Participants which have selected either of the fee rate types involving Inflation-Indexed Bonds may apply for an assumption of obligations. ▪ The matters to be stated in the application for assumption of obligations, the application cutoff time and the timing of an assumption of obligation shall remain unchanged. 	<ul style="list-style-type: none"> ▪ No specific classification of Clearing Qualification for handling Inflation-Indexed Bonds will be established.

Item	Outline	Remarks
3. Settlement	<ul style="list-style-type: none"> ▪ The settlement related to Inflation-Indexed Bonds shall be performed by the payment and receipt of money for the market value of the Inflation-Indexed Bonds (hereinafter referred to as “DVP Settlement Amount”) and the payment and receipt of money for delivery adjustment amount. ▪ The calculation method of DVP Settlement Amount for Inflation-Indexed Bonds shall be the same as those applied to other Japanese government bonds; provided, however, that when calculating such amount, notional principal value shall be used in lieu of face value used when calculating DVP Settlement Amount for other Japanese government bonds. ▪ The calculation method of FOS Settlement Amount for Inflation-Indexed Bonds shall be the same as those applied to other Japanese government bonds; provided, however, that, when calculating each component of FOS, notional principal value shall be used in lieu of face value used when calculating FOS Settlement Amount for other Japanese government bonds, as necessary. 	<ul style="list-style-type: none"> ▪ See Annexes 2 and 3. ▪ See Annexes 2 and 4.
4. Variation Margin	<ul style="list-style-type: none"> ▪ Variation Margin calculation method shall remain unchanged; provided, however, that when calculating the market value of Inflation-Indexed Bonds, notional principal value shall be used in lieu of face value used when calculating market value of other Japanese government bonds. 	<ul style="list-style-type: none"> ▪ See Annexes 2 and 5.

Item	Outline	Remarks
5. Initial Margin	<ul style="list-style-type: none"> ▪ The calculation method of Required Initial Margin Amount related to Inflation-Indexed Bonds shall be the same as those applied to other Japanese government bonds, except for the following; <ul style="list-style-type: none"> (i) Treatment of Indexation Coefficient <ul style="list-style-type: none"> ▪ Risk of fluctuation of Indexation Coefficient shall be taken into account when calculating Initial Margin Amount to Cover Market Fluctuation Risk related to Inflation-Indexed Bonds. ▪ When calculating Initial Margin Amount to Cover Repo Rate Fluctuation Risk and Market Impact Charge, notional principal value shall be used in lieu of face value used for calculation of the said amount for other Japanese government bonds. (ii) Establishment of New Setoff Category <ul style="list-style-type: none"> ▪ Separate setoff category from other Japanese government bonds shall be newly established for Inflation-Indexed Bonds. 	<ul style="list-style-type: none"> ▪ See Annex 6. ▪ See Annexes 2 and 6. ▪ See Annex 6.
6. Clearing Fund	<ul style="list-style-type: none"> ▪ New stress scenario covering Inflation-Indexed Bonds will be generated. 	<ul style="list-style-type: none"> ▪ Handling of Clearing Fund requirement calculation method shall remain unchanged. ▪ Details of the stress scenario will be discussed anew at a certain point in time before implementation of the scheme.

Item	Outline	Remarks
7. Handling of Substituting Japanese Government Bonds	<ul style="list-style-type: none"> ▪ A deposit of Inflation-Indexed Bonds as substituting Japanese government bonds is allowed; provided, however, that Clearing Participants allowed to deposit Inflation-Indexed Bonds as substituting Japanese government bonds shall be those who have selected fee rate type involving Inflation-Indexed Bonds. ▪ Calculation method for the market value of Inflation-Indexed Bonds deposited as substituting Japanese government bonds shall be the same as that applied to other Japanese government bonds deposited as substituting Japanese government bonds; provided, however, that, when calculating such market value, the notional principal value shall be used in lieu of face value used for other Japanese government bonds. 	<ul style="list-style-type: none"> ▪ Issues excluded from Eligible Products subject to Clearing (up to Issue No. 16) are not allowed to be deposited as substituting Japanese government bonds. ▪ See Annexes 2 and 7.

Item	Outline	Remarks
8. Scheme for Managing Settlement of Default	<ul style="list-style-type: none"> Necessary revisions will be made to take into account the treatment of Inflation-Indexed Bonds in the auction for default settlement at the time of Clearing Participant default. 	<ul style="list-style-type: none"> By covering Inflation-Indexed Bonds for clearing, there may be a case where Inflation-Indexed Bonds will be used in the obligated fund provision at the time of settlement default, etc. So, it is necessary for all Clearing Participants to be ready for responding to obligated fund provision using Inflation-Indexed Bonds. Parties to participate in the First Step Auction for Default Settlement should make efforts to be able to participate in the auction for default settlement covering Inflation-Indexed Bonds, including transactions for which Indexation Coefficient of the Ending Transaction delivery day has not been fixed.
9. Fees	<ul style="list-style-type: none"> As to Obligation Assumption Fee and Fee related to Collateral Allocation, two types of combination of the fixed charge and metered rate to be applied to Inflation-Indexed Bonds will be set and Clearing Participants can select from either of the fee rate types. 	<ul style="list-style-type: none"> Fee related to Collateral Allocation will be new fee type to be introduced when measures to deal with shortening of JGB settlement cycle are implemented. See Annex 8 for specific fee rate, etc. Expected utilization by Clearing Participants will be re-confirmed at certain point in time before implementation of the scheme, and fee rate, etc. will be adjusted, as necessary.

Item	Outline	Remarks
10. Implementation Timing	<ul style="list-style-type: none"> ▪ To be implemented at the same time as the measures to deal with shortening of JGB settlement cycle are implemented. 	<ul style="list-style-type: none"> ▪ Implementation of measures to deal with shortening of JGB settlement cycle is currently targeted at the first half of FY 2018.

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Timing to Start Clearing Inflation-Indexed Bonds

- Timing to start clearing newly issued Inflation-Indexed Bonds shall be as follows:

Issue	JSCC Clearing Start Date / Time to Start Application for Clearing
Interest-bearing Bonds	<ul style="list-style-type: none"> • 11:00 a.m. (or 1:15 p.m. for 40 year bonds) on Auction Date
Treasury Discount Bills	<ul style="list-style-type: none"> • 11:00 a.m. on Auction Announcement Date
Floating-rate Bonds	<ul style="list-style-type: none"> • 11:00 a.m. on Auction Date
STRIPS	<ul style="list-style-type: none"> • 3:00 p.m. on Auction Date
Inflation-Indexed Bonds	<ul style="list-style-type: none"> • 11:00 a.m. on Auction Date

- As a condition for an assumption of obligations, Indexation Coefficient of the settlement day (for buying and selling) or of the Starting Transaction delivery day (for Cash-Secured Bond Lending Transactions and Repo Transactions) is required to be fixed. So, as a result of extension of term for which Indexation Coefficient has been fixed, in other words, an announcement of Japan Consumer Price Index (which represents the general consumer price index excluding fresh food; hereinafter referred to as “CPI”), new settlement day or Starting Transaction delivery day eligible for assumption of obligation will be added. Application for an assumption of obligations of transactions which become eligible for assumption of obligations as a result of an announcement of CPI may be submitted after 11:00 a.m. on the date of the announcement of CPI.

Handling of Notional Principal Value of Inflation-Indexed Bonds

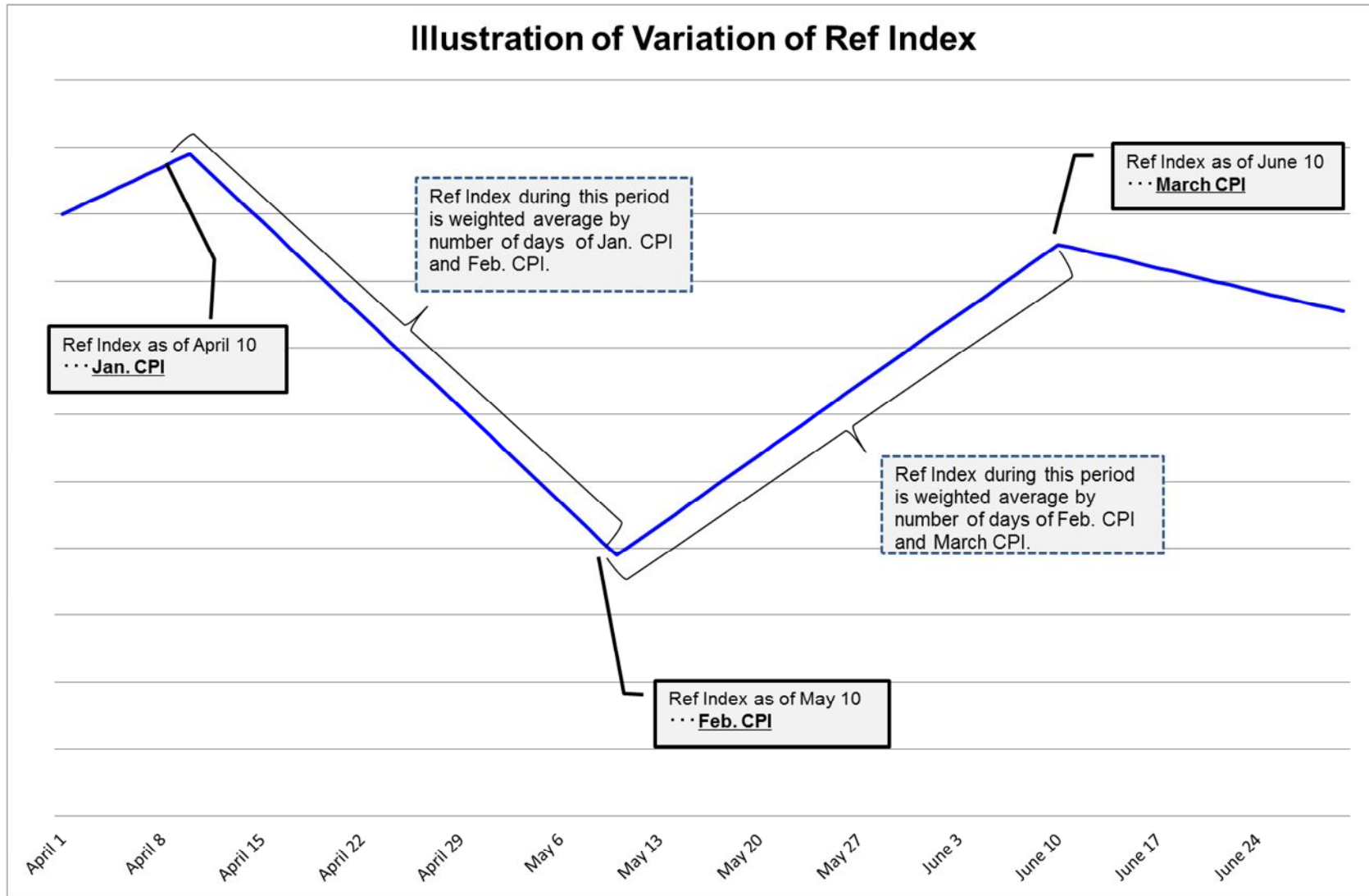
Principal value of Inflation-Indexed Bonds is structured to increase or decrease according to CPI (principal value after such increase/decrease will be hereinafter referred to as “Notional Principal Value”). The Notional Principal Value shall be calculated in the following manner:

【Notional Principal Value Calculation Method】

- Notional Principal Value on n^{th} day in the m^{th} month = Face Value \times Indexation Coefficient of n^{th} day in the m^{th} month
- Indexation Coefficient of n^{th} day in the m^{th} month = $\frac{\text{"Ref Index" on } n^{\text{th}} \text{ day in the } m^{\text{th}} \text{ month}}{\text{"Ref Index" for 10th day of the issue month}}$
- Ref Index on n^{th} day in the m^{th} month
 - If $n = 10$
= CPI for the $(m - 3)^{\text{th}}$ month
 - If $n > 10$
= CPI for the $(m - 3)^{\text{th}}$ month \times $\frac{\text{Number of days } ((n+1)^{\text{th}} \text{ day in the } m^{\text{th}} \text{ month to 10th day in the } (m+1)^{\text{th}} \text{ month})}{\text{Number of days (11th day in the } m^{\text{th}} \text{ month to 10th day in the } (m+1)^{\text{th}} \text{ month)}} + \text{CPI for the } (m - 2)^{\text{th}}$
month \times $\frac{\text{Number of days (11th day in the } m^{\text{th}} \text{ month to } n^{\text{th}} \text{ day in the } m^{\text{th}} \text{ month)}}{\text{Number of days (11th day in the } m^{\text{th}} \text{ month to 10th day in the } (m+1)^{\text{th}} \text{ month)}}$
 - If $n < 10$
= CPI for the $(m - 3)^{\text{th}}$ month \times $\frac{\text{Number of days (11th day in the } (m-1)^{\text{th}} \text{ month to } n^{\text{th}} \text{ day in the } m^{\text{th}} \text{ month)}}{\text{Number of days (11th day in the } (m-1)^{\text{th}} \text{ month to 10th day in the } m^{\text{th}} \text{ month)}} + \text{CPI for the } (m - 4)^{\text{th}}$ month
 \times $\frac{\text{Number of days } ((n+1)^{\text{th}} \text{ day in the } m^{\text{th}} \text{ month to 10th day in the } m^{\text{th}} \text{ month)}}{\text{Number of days (11th day in the } (m-1)^{\text{th}} \text{ month to 10th day in the } m^{\text{th}} \text{ month)}}$

- In light of the above, JSCC will use the Notional Principal Value obtained by multiplying the face value by Indexation Coefficient in the calculation of market value of Inflation-Indexed Bonds, in lieu of the face value used for calculation of market value of other Japanese government bonds.

(Reference) Illustration of Variation of Ref Index



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DVP Settlement Amount Calculation Method for Inflation-Indexed Bonds

- DVP Settlement Amount shall be calculated using the Notional Principal Value taking account of Indexation Coefficient.
- To be specific, the DVP Settlement Amount for issues for which the next business day will be the delivery day shall be calculated in the manner outlined below.

Other Japanese Government Bonds	Inflation-Indexed Bonds
<p>DVP Settlement Amount = $\frac{\text{Face Value} \times \text{Market Price for next Business Day} (*)}{100}$</p> <p>(*) Sum of the unit price obtained based on yield (average) of Reference Statistical Price published by the Japanese Securities Dealers Association (unit price (average) in the Reference Statistical Price is used for Floating-rate Bonds) and the accrued interest for the number of days up to the next business day following the date of calculation (= 100 yen x nominal coupon x (number of days (from previous interest payment date to next business day) / 365) (the market price shall be calculated under the same concept for Annex 4 and subsequent Annexes).</p>	<p>DVP Settlement Amount = $\frac{\text{Notional Principal Value on next Business Day} (*1) \times \text{Market Price for next business day} (*2)}{100}$</p> <p>(*1) Obtained as “Face Value x Indexation Coefficient of the next business day.” (Notional Principal Value shall be calculated under the same concept for Annex 4 and subsequent Annexes).</p> <p>(*2) For unit price in the calculation of market price, unit price (average) in the Reference Statistical Price published by the Japan Securities Dealers Association shall be used in the same manner as in the case of Floating-rate Bonds (the same applies to unit price of Inflation-Indexed Bonds in Annex 4 and subsequent Annexes).</p>

FOS Settlement Amount for Inflation-Indexed Bonds

- Out of components of FOS Settlement Amount, the following rules shall apply to the interest during the term and the principal amount to be paid/received on the redemption date for failed Inflation-Indexed Bonds. (Calculation method of delivery adjustment amount and fail charge shall remain unchanged.)

1. Calculation Method of Interest Amount during Term

- When an interest payment date for Inflation-Indexed Bonds arrives during repo period, fail period or while bonds are deposited as substituting Japanese government bonds, the amount equivalent to the interest to be paid/received on such interest payment date shall be calculated in the following manner by using the Principal Notional Value taking account of Indexation Coefficient.

Other Japanese Government Bonds	Inflation-Indexed Bonds
Interest Equivalent = $\frac{\text{Face Value} \times \text{Nominal Coupon (\%)} }{200}$	Interest Equivalent = $\frac{\text{Notional Principal Amount on Interest Payment Date} \times \text{Nominal Coupon (\%)} }{200}$

2. Principal Amount to be Paid/Received on Redemption Date for Failed Inflation-Indexed Bonds

- In light of the principal guarantee(*) feature of Inflation-Indexed Bonds after Issue No. 17 to be covered under clearing this time, the principal amount to be paid/received on the redemption date for the Inflation-Indexed Bonds in respect of which fail has occurred shall be as follows:

(*) If Indexation Coefficient on Redemption Date is below 1, then Redemption Amount shall be equal to the Face Value.

Other Japanese Government Bonds	Inflation-Indexed Bonds
Principal Amount to be Paid/Received on Redemption Date = <u>Face Value</u>	Principal Amount to be Paid/Received on Redemption Date = <u>Greater of Face Value and Notional Principal Value on Redemption Date</u>

Variation Margin Calculation Method related to Inflation-Indexed Bonds

- When calculating Variation Margin, the market value of Inflation-Indexed Bonds shall be calculated in the following manner by using the Notional Principal Value taking account of Indexation Coefficient:

Other Japanese Government Bonds	Inflation-Indexed Bonds
Market Value = <u>Face Value</u> × Market Price for Regular Transfer Day	Market Value = <u>Notional Principal Value on Regular Transfer Day</u> × Market Price for Regular Transfer Day

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Required Initial Margin Amount Calculation Method for Inflation-Indexed Bonds

1. Treatment of Initial Margin Amount to Cover Market Price Fluctuation Risk

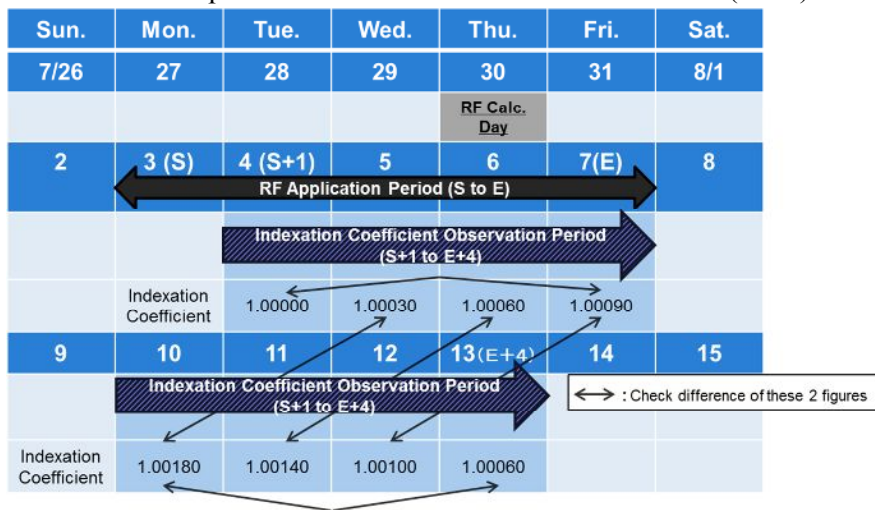
(1) Market Price Fluctuation Risk Factor

- In the calculation of Initial Margin Amount to Cover Market Price Fluctuation Risk, when obtaining Market Price Fluctuation Risk Factor, in addition to market price fluctuation risks that are considered when calculating such margin for other Japanese government bonds, fluctuation risk of Indexation Coefficient shall also be considered. Specifically, the sum of the value to cover fluctuation of market price for the holding period (3 business days) (① below) and the value to cover fluctuation of Indexation Coefficient (② below) shall be the Market Price Fluctuation Risk Factor for each issue of Inflation-Indexed Bonds.

① Value determined by JSCC as the level to cover 99% of the 3-day fluctuation ratio of daily unit price by issue (unit price (average) of Statistical Reference Price published by the Japan Securities Dealers Association as of the next day following the calculation day) during the period of past 250 days.

② Value obtained by multiplying the largest fluctuation (absolute value) of Indexation Coefficient(*) during 3 day period from the next business day following the first day of Market Price Fluctuation Risk Factor application period to the 4th business day following the last day of the application period (hereinafter referred to as “Indexation Coefficient Fluctuation Cover Value”) by the market price for regular transfer day.

< Calculation Example of Market Price Fluctuation Risk Factor (“RF”) Calculation Day and Change in Indexation Coefficient Fluctuation Cover Value >



➤ Indexation Coefficient Fluctuation Cover Value to be used for calculation of Market Price Fluctuation Risk Factor as of July 30 shall be the fluctuation from Aug. 5 to Aug. 10, i.e., “0.0015”.

(*) If Indexation Coefficient has not been fixed for any day during the covered period, the value obtained by JSCC by liner extrapolation shall be deemed as Indexation Coefficient for the day to obtain Indexation Coefficient Fluctuation Cover Value.

(2) Setoff Category and Setoff Class

- Separate setoff category(*) shall be established for Inflation-Indexed Bonds and the setoff class shall be set in the following manner:

(*) When calculating Initial Margin Amount to Cover Market Price Fluctuation Risk, risk amount obtained for each issue is offset within the setoff category set for each issue classification. Under current procedures, JSCC has set 3 setoff categories, namely, Interest-bearing Bonds, Discount Bills and Floating-rate Bonds. New setoff category independent from those existing setoff categories will be established for Inflation-Indexed Bonds.

Interest-bearing Bonds		Discount Bills		Floating-rate Bonds		(New) Inflation-Indexed Bonds	
Setoff Class		Setoff Class		Setoff Class		Setoff Class	
	Term to Maturity (More than – up to)		Term to Maturity (More than – up to)		Term to Maturity (More than – up to)		Term to Maturity (More than – up to)
A	0 – 2	A	0 – 2	A	0 – 2	A	0 – 2
B	2 – 4	B	2 – 4	B	2 – 4	B	2 – 4
C	4 – 7	C	4 – 7	C	4 – 7	C	4 – 7
D	7 – 10	D	7 – 10	D	7 – 10	D	7 – 10
E	10 – 20	E	10 – 20	E	10 – 20	E	10 – 20
F	20 – 30	F	20 – 30				
G	30 – 41	G	30 – 41				

2. Handling of Initial Margin Amount to Cover Repo Rate Fluctuation Risk

- In the calculation of Initial Margin Amount to Cover Repo Rate Fluctuation Risk, Repo Rate Fluctuation POMA shall be calculated by using Notional Principal Value taking account of Indexation Coefficient. (Treatment of Repo Rate Fluctuation Average POMA and calculation of the lower limit of repo rate fluctuation risk shall remain unchanged.)
- Specifically, Repo Rate Fluctuation POMA shall be the absolute value of the sum of the risk amount obtained in the following manner:

Other Japanese Government Bonds	Inflation-Indexed Bonds
$\text{Risk Amount} = \text{Net Quantity}^{(*)} (\text{Face Value})$ <ul style="list-style-type: none"> × Market Price for Regular Transfer Day × Repo Rate Fluctuation Risk Factor / 10,000 × Number of days from Regular Transfer Day to Settlement Day / 365 <p>(*) Aggregate delivery quantity less aggregate receiving quantity by issue and by settlement day.</p>	$\text{Risk Amount} = \text{Net Quantity} (\text{Notional Principal Value on Regular Transfer Day})$ <ul style="list-style-type: none"> × Market Price for Regular Transfer Day × Repo Rate Fluctuation Risk Factor / 10,000 × Number of days from Regular Transfer Day to Settlement Day / 365

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3. Market Impact Charge Calculation Method

- In the calculation of Market Impact Charge, the execution cost equivalent shall be obtained by using Notional Principal Amount taking account of Indexation Coefficient.
- Specifically, the execution cost equivalent shall be the sum of the amounts obtained in the following manner:

Other Japanese Government Bonds	Inflation-Indexed Bonds
<p>Execution Cost Equivalent = Net Quantity (*1) (<u>Face Value</u>) × Base Spread(*2) × BPV(*3)</p> <p>(*1) Net quantity as the difference of gross delivery quantity and gross receiving quantity by issue. (*2) To be set based on market survey results. (*3) This is not applied to Floating-rate Bonds. (Same for Inflation-Indexed Bonds.)</p>	<p>Execution Cost Equivalent = Net Quantity (<u>Notional Principal Value on Regular Transfer Day</u>) × Base Spread (*)</p> <p>(*) Base spread for Inflation-Indexed Bonds will be set based on market survey results in the same manner as base spread for other Japanese government bonds.</p>

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Calculation Method of Market Value of Substituting Japanese Government Bonds related to Inflation-Indexed Bonds

1. Substituting Japanese Government Bonds Market Value Calculation Method

The market value of Inflation-Indexed Bonds deposited as substituting Japanese government bonds shall be calculated by using the Notional Principal Value taking account of Indexation Coefficient.

- Specifically, the market value shall be obtained in the following manner:

Other Japanese Government Bonds	Inflation-Indexed Bonds
$\begin{aligned} \text{Market Value of Substituting Securities} &= \text{Face Value} \\ &\times (\text{Unit Price for Deposit Date} \times \text{Appraisal Multiplier} \\ &+ \text{Accrued Interest for Deposit Date}) \end{aligned}$	$\begin{aligned} \text{Market Value of Substituting Securities} &= \text{Notional Principal Value on} \\ \text{Deposit Date} &\times (\text{Unit Price for Deposit Date} \times \text{Appraisal Multiplier} \\ &+ \text{Accrued Interest for Deposit Date}) \end{aligned}$

2. Treatment when Redemption Date of Inflation-Indexed Bonds Deposited as Substituting Japanese Government Bonds Arrives

- The amount of the principal amount to be deposited as cash collateral for Inflation-Indexed Bonds deposited as substituting Japanese government bonds for which redemption date arrives shall be obtained in the following manner. (Same treatment as Item #2 of Annex 4).

Other Japanese Government Bonds	Inflation-Indexed Bonds
$\text{Principal Amount Equivalent to be Deposited as Cash Collateral on Redemption Date} = \text{Face Value}$	$\text{Principal Amount Equivalent to be Deposited as Cash Collateral on Redemption Date} = \text{Greater of Face Value and Notional Principal Value on Redemption Date}$

Fee related to Inflation-Indexed Bonds

1. Fee Rate

- For each of (1) Obligation Assumption Fee for Buying and Selling, (2) Obligation Assumption Fee for Cash-Secured Bond Lending Transactions and Repo Transactions and (3) Fee related to Collateral Allocation, Rate Type A and Rate Type B that are unique to Inflation-Indexed Bonds will be set respectively. Clearing Participants may make selection of fee rate type according to the type of Transaction subject to Clearing which they handle for each of the fees (1) through (3).
 - As to buying and selling, the Clearing Participants which made selection of either Rate Type A or Rate Type B for (1) mentioned below may apply for an assumption of obligations for a transaction involving Inflation-Indexed Bonds (if neither rate type is selected, the Clearing Participant may not apply for an assumption of obligations for a transaction involving Inflation-Indexed Bonds).
 - As to Cash-Secured Bond Lending Transactions and Repo Transactions (including Subsequent Collateral Allocation Repos), the Clearing Participants which made selection of either Rate Type A or Rate Type B for (2) mentioned below may apply for an assumption of obligations for a transaction involving Inflation-Indexed Bonds (if neither rate type is selected, the Clearing Participant may not apply for an assumption of obligations for a transaction involving Inflation-Indexed Bonds).
 - As to Subsequent Collateral Allocation Repos, the Clearing Participants which made selection of either Rate Type A or Rate Type B for (3) mentioned below may include the Inflation-Indexed Bonds in Allocable Balance Notice (if neither rate is selected, the Clearing Participant may not include the Inflation-Indexed Bonds in Allocable Balance Notice).
 - Under Rate Type A, fixed charge is set at relatively high level while metered rate is set at relatively low level, and under Rate Type B, fixed charge is set at relatively low level while metered rate is set at relatively high level.

(1) Obligation Assumption Fee for Buying and Selling

Amount obtained by multiplying Assumption of Obligation Amount (amount of money to be paid/received on the buying and selling settlement day) by the rate stipulated below (metered rate for Inflation-Indexed Bonds); provided, however, that the fixed charge shall be added to the amount so obtained in case of Inflation-Indexed Bonds.

Other Japanese Government Bonds (*excluding Treasury Discount Bills)			Inflation-Indexed Bonds			
Current	After Shortening of JGB Settlement Cycle		Rate Type A		Rate Type B	
	Assumption of Obligation Amount	Rate	Fixed Charge	Metered Rate	Fixed Charge	Metered Rate
0.002/10,000	Up to 1 tril yen per month	0.004/10,000	<u>1 mil yen</u> (monthly)	<u>0.04/10,000</u>	<u>100,000 yen</u> (monthly)	<u>0.16/10,000</u>
	More than 1 tril yen but up to 2 tril yen per month	0.003/10,000				
	More than 2 tril yen but up to 4 tril yen per month	0.002/10,000				
	More than 4 tril yen but up to 7 tril yen per month	0.0015/10,000				
	More than 7 tril yen per month	0.0006/10,000				

(*) Fee description for Treasury Discount Bills is omitted in this material.

(2) Obligation Assumption Fee for Cash-Secured Bond Lending Transactions and Repo Transactions

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Amount obtained by multiplying the assumption of obligation amount (meaning the amount to be paid/received on the Ending Transaction delivery day)(*1) by the rate (metered rate for Inflation-Indexed Bonds) set for each transaction in below a. and b.; provided, however, in respect of the Inflation-Indexed Bonds, the Fixed Charge shall be added to the amount so obtained.

The same selected rate type shall apply to both of the transactions listed in a. and b.

(*1) In respect of the transactions listed in a., it shall be the amount obtained by multiplying the assumption of obligation amount by the number of days during the lending period or transaction period.

a. Overnight Transactions

Other Japanese Government Bonds			Inflation-Indexed Bonds (*2)			
Current	After Shortening of JGB Settlement Cycle		Rate Type A		Rate Type B	
	Assumption of Obligation Amount	Rate	Fixed Charge	Metered Rate	Fixed Charge	Metered Rate
0.0001/10,000	Up to 20 tril yen per month	0.0003/10,000	<u>300,000 yen</u> (monthly)	<u>0.0004/10,000</u>	<u>50,000 yen</u> (monthly)	<u>0.0015/10,000</u>
	More than 20 tril yen but up to 30 tril yen per month	0.00018/10,000				
	More than 30 tril yen but up to 50 tril yen per month	0.00009/10,000				
	More than 50 tril yen but up to 100 tril yen per month	0.00006/10,000				
	More than 100 tril yen per month	0.00003/10,000				

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(*2) For Subsequent Collateral Allocation Repos, these fees shall apply to the transaction covering the basket containing the Inflation-Indexed Bonds (including the case where other Japanese government bonds are allocated in the course of the collateral allocation).

b. Transactions other than those specified in a.

Other Japanese Government Bonds			Inflation-Indexed Bonds (*3)			
Current	After Shortening of JGB Settlement Cycle		Rate Type A		Rate Type B	
	Assumption of Obligation Amount	Rate	Fixed Charge	Metered Rate	Fixed Charge	Metered Rate
0.002/10,000	Up to 1.5 tril yen per month	0.003/10,000	— (Included in Rate <u>Type A of Overnight Transaction</u>)	0.004/10,000	— (Included in Rate <u>Type B of Overnight Transaction</u>)	0.015/10,000
	More than 1.5 tril yen but up to 2.5 tril yen per month	0.0018/10,000				
	More than 2.5 tril yen but up to 5 tril yen per month	0.0009/10,000				
	More than 5 tril yen but up to 10 tril yen per month	0.0006/10,000				
	More than 10 tril yen per month	0.0003/10,000				

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(*3) For Subsequent Collateral Allocation Repos, these fees shall apply to the transaction covering the basket containing the Inflation-Indexed Bonds (including the case where other Japanese government bonds are allocated in the course of the collateral allocation).

<Reference> : Application of Obligation Assumption Fee to Basket of Subsequent Collateral Allocation Repos

Taking an example of basket plan shown in the reference material “Treatment of Inflation-Indexed Bonds in Basket for Subsequent Collateral Allocation Repos” attached below, the Obligation Assumption Fee for the basket of Subsequent Collateral Allocation Repos will apply in the following manner:

Basket Plan \ Rate to Apply	Rate for Other Japanese Government Bonds	Rate for Inflation-Indexed Bonds
Plan 1	① • ② • ③ • ⑤	④
Plan 2	② • ③ • ④	①
Plan 3	② • ③ • ④ • ⑤	①

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(3) Fee related to Collateral Allocation

As a fee related to collateral allocation, the Inflation-Indexed Bonds allocation fee shall be established in addition to the collateral allocation fee.

Collateral allocation fee and Inflation-Indexed Bonds allocation fee shall be the amount obtained by multiplying the calculation base (*1)(*2) by the rate specified below; provided, however, in respect of the Inflation-Indexed Bonds, the Fixed Charge shall be added to the amount so obtained.

Collateral Allocation Fee			Inflation-Indexed Bonds Allocation Fee			
Current	After Shortening of JGB Settlement Cycle		Rate Type A		Rate Type B	
	Calculation Base	Rate	Fixed Charge	Metered Rate	Fixed Charge	Metered Rate
—	Up to 500 bil yen per month	0.0036/10,000	<u>200,000 yen</u> (monthly)	<u>0.003/10,000</u>	<u>50,000 yen</u> (monthly)	<u>0.008/10,000</u>
	More than 500 bil yen, but up to 2.5 tril yen per month	0.0032/10,000				
	More than 2.5 bil yen, but up to 10 tril yen per month	0.0028/10,000				
	More than 10 bil yen, but up to 15 tril yen per month	0.0018/10,000				
	More than 15 tril yen per month	0.0005/10,000				

(*1) Calculation Base shall be the amount obtained in the following manner:

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For Collateral Allocation Fee: Amount of money paid/received related to Starting/Rewind Obligations subject to the collateral allocation (including those deferred from the previous allocation) less the market value of the Inflation-Indexed Bonds allocated to the Starting/Rewind Obligations;

For Inflation-Indexed Bonds: Market value of the Inflation-Indexed Bonds allocated to the Starting and Rewind Transactions.

(*2) Applicable only to the Clearing Participant who will become JGB deliverer as a result of the basket netting.

<Reference> : Collateral Allocation Fee and Inflation-Indexed Bonds Allocation Fee Calculation Example (monthly charge)

○Assumption

Selected Rate Type : Rate Type A

Amount paid/received in relation to Starting/Rewind Obligations: 1 tril yen

Market value of Inflation-Indexed Bonds allocated to Starting/Rewind Obligations: 500,000,030,000 yen

○Calculation

Collateral Allocation Fee : $(1 \text{ tril yen} - 500,000,030,000 \text{ yen}) \times 0.0036/10,000 = 179,999 \text{ yen}$

Inflation-Indexed Bonds Allocation Fee : $500,000,030,000 \text{ yen} \times 0.003/10,000 + 200,000 \text{ yen} = 350,000 \text{ yen}$

(4) Other Fees

- There will be no change in association with addition of the Inflation-Indexed Bonds to Transaction subject to Clearing.

2. Others

- When depositing Inflation-Indexed Bonds as substituting Japanese government bonds, the Clearing Participant must make selection of the fee rate type for at least one of the above fee categories.

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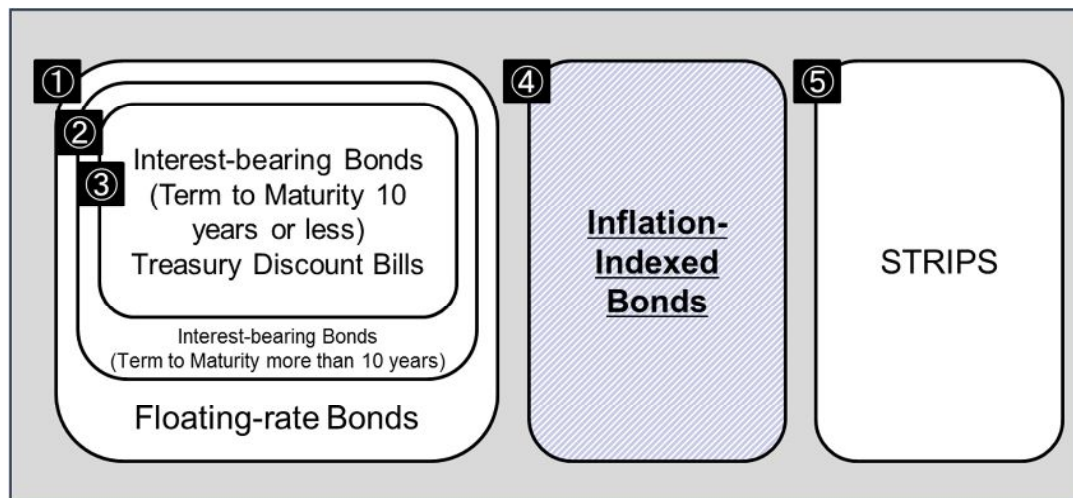
- A Clearing Participant may change or cancel previously selected fee rate type effective as of April 1 of a year by giving notice of such effect by the end of February of the same year.
- Incentive and disincentive to promote utilization from the launch will be discussed going forward, including its necessity.

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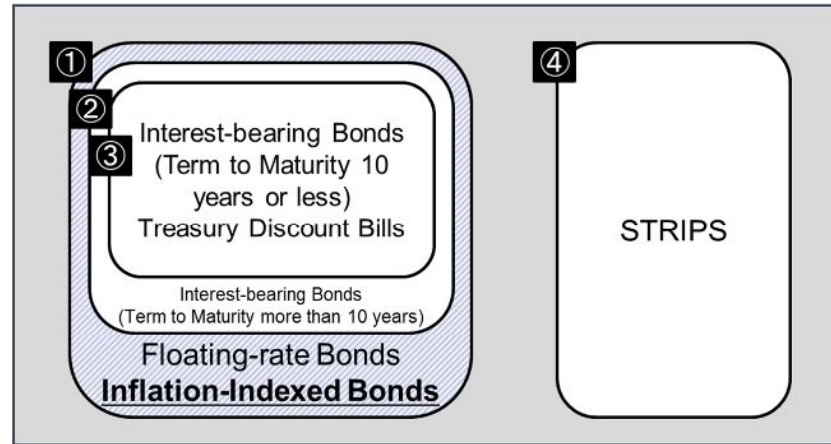
Treatment of Inflation-Indexed Bonds in Basket for Subsequent Collateral Allocation Repos

- Below-listed 3 plans are envisaged for the treatment of Inflation-Indexed Bonds in the basket for Subsequent Collateral Allocation Repos

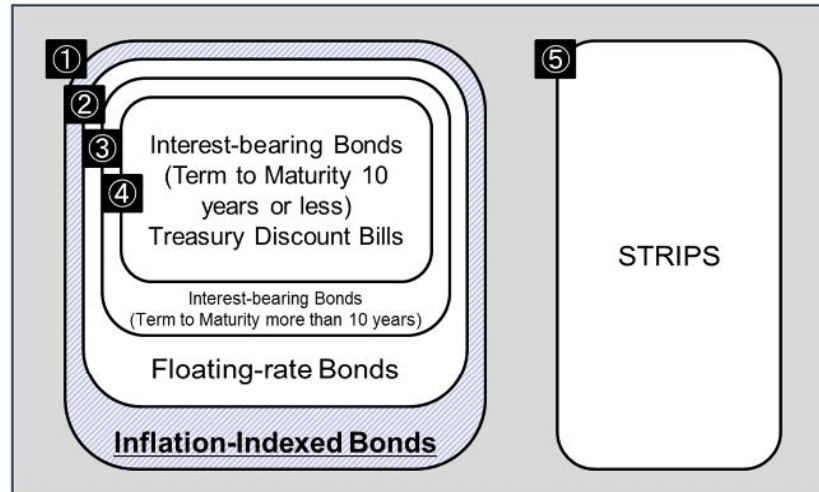
<Plan 1> Set separate basket solely for Inflation-Indexed Bonds



<Plan 2> Include Inflation-Indexed Bonds into basket ①



<Plan 3> Place basket containing Inflation-Indexed Bonds outside of those containing Floating-rate Bonds



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