

Outline concerning Introduction, etc. of Client Clearing

July 1, 2013

Japan Securities Clearing Corporation

I. Purpose

Currently, the scope of Clearing Customers in relation to the Interest Rate Swap Clearing Business is limited to entities included in the same Corporate Group as a Clearing Participant on Customer Account (hereinafter referred to as the “Affiliates”). Now, necessary amendments to the structure will be made, such as permitting customers other than Affiliates to become Clearing Customers, and revising clearing procedures to shorten the time period from the execution of the transaction to clearing.

II. Outline

Item	Details	Remarks
1. Scope of Clearing Customer	<ul style="list-style-type: none"> • Participation by Affiliates may be allowed as the scope of Clearing Customer which may commission Brokerage for Clearing of Securities, etc. (Client Clearing). 	<ul style="list-style-type: none"> • While the structure related to Client Clearing is based on the current structure related to Brokerage for Clearing of Securities, etc. related to Interest Rate Swap Transactions covering Affiliates, the points that need to be changed from the said structure are addressed in this material.
2. Requirements for Clearing Participants which Conduct Client Clearing	<ul style="list-style-type: none"> • IRS Clearing Participant intending to handle Client Clearing shall put in place the business execution structures related to Client Clearing as listed below, and obtain prior approval of JSCC. <ul style="list-style-type: none"> a. Settlement Operation Structures related to settlement operation for transactions of 	<ul style="list-style-type: none"> • Structure described in a. in the left column will be confirmed by conducting Clearing Participants test. Structures described in b. and c. in the left column will be confirmed by requesting for submission of document that

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	<p data-bbox="685 248 1386 323">Clearing Customers (excluding Affiliates, the same shall apply in this Item No. 2)</p> <p data-bbox="629 979 1386 1091">b. Risk Management Structure related to risk management against Clearing Customer</p>	<p data-bbox="1444 248 2011 323">describes status of structure organization and based on the said document.</p> <ul style="list-style-type: none"> <li data-bbox="1417 336 2011 496">• Specifically, the following points will be confirmed by JSCC; to check whether the structure is established to process each item as prescribed by JSCC; <ul style="list-style-type: none"> <li data-bbox="1467 507 2011 582">✓ An approval of Brokerage for Clearing of Securities, etc., <li data-bbox="1467 593 2011 668">✓ An approval of Voluntary Termination (See Item No. 7 (1)), <li data-bbox="1467 679 2011 922">✓ Deposit and refund of Initial Margin and Variation Margin, etc. (such term means Variation Margin, interests on Variation Margin, coupon, up-front fees and Voluntary Termination fee, the same shall apply hereinafter) <li data-bbox="1417 979 2011 1177">• Specifically, the establishment of the structure for the following points, by which Clearing Participant appropriately manage the risk associated with Clearing Customer, will be confirmed by JSCC; <ul style="list-style-type: none"> <li data-bbox="1467 1189 2011 1305">✓ Examination for Clearing Customer upon commencement of handling Client Clearing,

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	<p>c. Compliance Structure for prevention of conflict of interests related to Client Clearing</p>	<ul style="list-style-type: none"> ✓ Measures to be taken by Clearing Participant on Customer Account upon deterioration of credit standing of a Clearing Customer ✓ Measures to be taken when risks associated with positions increase is confirmed. <ul style="list-style-type: none"> • Specifically, JSCC confirms the establishment of the structure for prevention of unreasonable damage to interests of Clearing Customer, such as management of conflict of interest with information blockage among departments which may be in conflict of interest. • If any deficiency in the business execution structures related to Client Clearing is recognized, JSCC may take such measures against the relevant Clearing Participant as suspension of new Assumption of Obligations related to Client Clearing. • At the introduction of Client Clearing, no special criteria will be established for business management structure and financials in requirements for Clearing Participants.

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3. Subject Transaction for Clearing		
(1) Clearing Customer Transaction Reconciliation Method	<ul style="list-style-type: none"> Similarly as in the case of transactions of Clearing Participants and Affiliates, transactions of Clearing Customers (excluding Affiliates) must be transactions reconciled via MarkitWire 	
(2) Other Requirements for Subject Transaction for Clearing	<ul style="list-style-type: none"> In addition to transactions with constant notional amount, interest rate swap transactions with step-down/step-up notional amount (hereinafter referred to as the “Amortizing IRS”) will be the Subject Transactions for Clearing. 	<ul style="list-style-type: none"> Amortizing IRS shall be limited to those transactions under which notional step-down/step-up method is prescribed at the time of execution of transaction, and thereafter such method will not be changed during the term.
4. Application for Brokerage for Clearing of Securities, etc. related to Clearing Customer Transactions		
(1) Application for Brokerage for Clearing of Securities, etc.	<ul style="list-style-type: none"> Brokerage for Clearing of Securities, etc. will be applied for by registration of information concerning application for Brokerage for Clearing of Securities, etc. in MarkitWire. 	
(2) Approval of Transaction by Clearing Participant on Customer Account	<ul style="list-style-type: none"> Transactions of Clearing Customer (excluding Affiliate) will only be cleared when the Clearing Participant on Customer Account approves the brokerage of such transactions. 	<ul style="list-style-type: none"> Brokerage will be approved through structure JSCC provides. There will be no change to affiliate transactions, i.e., no approval of brokerage on the part of Clearing Participant on Customer Account is required.
5. Clearing Procedure	<ul style="list-style-type: none"> In line with the introduction of client clearing, Clearing Procedure 	<ul style="list-style-type: none"> Under current scheme, backload transactions are to be processed for clearing on the next day of

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	<p>per Trade (CPT) shall be introduced with respect to the Clearing Procedure.</p> <ul style="list-style-type: none"> • Clearing Procedure per Trade shall be conducted Transactions for which Assumption of Obligations is applied during the periods from 11:00 a.m. to noon and from 1:00 p.m. to 4:00 p.m., respectively on every business day., • During CPT, transactions for which Assumption of Obligations is applied will be cleared when satisfaction of certain conditions, such as deposit, by both parties applied for Assumption of Obligations, of Initial Margin in the amount not less than the amount equal to the Required Amount of Intraday Margin calculated based on the aggregate positions of said Transactions and Cleared Transactions, is confirmed (Clearing Procedure per Trade (CPT)). 	<p>application for regardless of the time of receipt of applications. However, backload transactions will be handled in the same manner as other transactions after the introduction of Client Clearing.</p> <ul style="list-style-type: none"> • Judgment as to eligibility for CPT will be made separately by each transaction for which Assumption of Obligation is applied. • Conditions for Assumption of Obligations other than deposit of Initial Margin will not be changed . • Even in the event of shortfall in deposit of Initial Margin in CPT, Default, etc. will not be acknowledged.
6. Handling of Accounts	<ul style="list-style-type: none"> • Clearing Participant will open an account for recording cleared transactions and managing collaterals with JSCC (hereinafter referred to as “Clearing Participant Account”). • Clearing Participant Account shall consist of the account for recording Clearing Participant’s house transactions (hereinafter referred to as “House Account”) and the account (hereinafter referred to as “Customer Account”) for recording transactions of Clearing Customers. Customer Account shall be established 	<ul style="list-style-type: none"> • Clearing Customer may open brokerage accounts with different Clearing Participants, provided that calculation and deposit, and other operations of Required Amount of Initial Margin will all be conducted separately for each Clearing

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	separately for each Clearing Customer.	Participant. • JSCC will manage deposit balance of Initial Margins of Clearing Participant or Clearing Customer separately by House Account and each Customer Account.
(1) Notification of hedge or non-hedge account	<ul style="list-style-type: none"> • Clearing Customer (excluding Affiliates, the same shall apply in this Item No. 6) shall notify Clearing Participant on Customer Account in advance its account as hedge account, if it mainly engages in hedge transactions, and as non-hedge account, if it mainly engages in transactions for purposes other than hedge. 	<ul style="list-style-type: none"> • Hedge transactions means economically appropriate transactions which are alternative transactions for trades in physical market, or have an effect of mitigating risks arising from potential fluctuation, etc. of the prices of assets held by such party in the course of its business operations (not limited to transactions to which hedge accounting apply). • As to classification of hedge account and non-hedge account, no numerical criteria will be established, rather Clearing Customers will notify such classification based on expected primary purpose of IRS Transactions. • If a customer fails to give necessary notification or gives false notification, then it is in the state of failure to perform its obligation to be performed under the Clearing Brokerage Agreement, which may constitute an Event of Default if not cured for a certain period of time

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	<ul style="list-style-type: none"> Clearing Participant on Customer Account shall notify details of such notification to JSCC. 	<ul style="list-style-type: none"> Classification of hedge account or non-hedge account once notified to JSCC may be changed by notifying the classification to JSCC once again.
(2) Raising IM with respect to Clearing Customer's Non-hedge Positions	<ul style="list-style-type: none"> The Required IM Amount for an account notified by Clearing Customer as a non-hedge account shall be 10% more than the amount calculated by ordinary method. 	
7. Post Clearing Procedure		<ul style="list-style-type: none"> "Post Clearing Procedure" means processing of amendment to cleared Transactions, such as early termination.
(1) Introduction of Early Termination (Voluntary Termination) Scheme	<ul style="list-style-type: none"> Early termination (hereinafter referred to as "Voluntary Termination") scheme with respect to cleared transactions will be introduced. Voluntary Termination Procedure will be conducted when both parties to the Underlying Transactions subject to such Voluntary Termination apply for Voluntary Termination, and Initial Margin and Variation Margin, etc. after the early termination has been deposited. 	<ul style="list-style-type: none"> Current declare structure (structure of reinstating cleared transactions to transactions between parties to Underlying Transactions) will be abolished. Upon novation or amendment of cleared transactions, early termination of existing transaction is processed. And then Assumption of Obligations for new transaction will be applied to JSCC. Application for Voluntary Termination is made through declare function of MarkitWire. Voluntary Termination Procedure will be processed in bulk at 11:00 a.m. on the business day immediately following the application for

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	<ul style="list-style-type: none"> Voluntary Termination Fee (which means cash of which payment/receipt between parties to Underlying Transaction has been committed upon termination of subject transaction) will also be the subject of the clearing. 	Voluntary Termination.
(2) Introduction of Bulk Compression Processing	<ul style="list-style-type: none"> With respect to cleared transactions, the procedure of bulk early termination, upon application of Clearing Participant or Clearing Customer, with almost no change to risk amount in respective portfolio (hereinafter referred to as “Bulk Compression Procedure”) will be introduced. See Annex 1 for detailed operational flow of Bulk Compression Procedure. 	<ul style="list-style-type: none"> Services of TriOptima will be used for Bulk Compression Procedure. Timing, operational flow, and other details for implementation of Bulk Compression Procedure will be the subject of ongoing review.
(3) Introduction of Position Transfer Structure a. Application for Position Transfer b. Conclusion of	<ul style="list-style-type: none"> Transfer of Clearing Customer positions to other Clearing Participant (“Position Transfer”) shall be allowed. When Clearing Customer desires Position Transfer, after Clearing Customer and Clearing Participant which will accept Position Transfer (hereinafter referred to as “Successor Clearing Participant”) agreed on such Position Transfer, Successor Clearing Participant will apply for Position Transfer to JSCC. Application for Position Transfer shall be made by 1:00 p.m. on the business day immediately preceding the transfer date. Initial Margin and Variation Margin, etc. after Position Transfer will 	<ul style="list-style-type: none"> See Item No. 12 for Structure of Position Transfer to other Clearing Participant upon default of Clearing Participant on Customer Account. Position Transfer shall be in following two types: (1) transfer of entire positions (“Entire Transfer”) and transfer of only a part of positions (“Partial Transfer”).

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<p>Position Transfer</p> <p>c. Transfer of Initial Margin in Association with Position Transfer</p>	<p>be calculated with respect to cleared transactions as of 4:00 p.m. on the business day immediately preceding the Position Transfer date, and Position Transfer will be concluded on condition of the deposit of relevant Initial Margin, etc. by 11:00 a.m. of the Position Transfer date.</p> <ul style="list-style-type: none"> If the entire positions are to be transferred, Initial Margin will also be transferred in association with Position Transfer. 	<ul style="list-style-type: none"> By transfer of Initial Margin, Initial Margin deposited by Clearing Customer shall be deemed to be deposited through Successor Clearing Participant.
8. Handling of Deposit and Return of Margins		
(1) Cutoff Time for Deposit		
a. Cutoff Time for Deposit of Initial Margin	<ul style="list-style-type: none"> If amount deposited as Initial Margin in each account with respect to Clearing Participant or Clearing Customer (hereinafter simply referred to as “by account”) falls short of the Required Initial Margin Amount with respect to the relevant account, such shortfall shall be eliminated by 11:00 a.m. of the business day immediately following the date of occurrence of such shortfall (calculation date). 	<ul style="list-style-type: none"> Elimination of shortfall based on the amount after netting with Variation Margin, etc. is allowed. See Item No. 8, (2), c.
b. Cutoff Time for Deposit of Intraday Margin	<ul style="list-style-type: none"> If amount deposited as Initial Margin by account falls short of Required Intraday Margin Amount with respect to the relevant account, such shortfall shall be eliminated by 3:30 p.m. on the date of occurrence of such shortfall (calculation date). 	<ul style="list-style-type: none"> By depositing Initial Margin in the amount at least equal to Required Intraday Margin Amount recalculated through CPT, the shortfall in Required Intraday Margin Amount shall be eliminated when CPT has been completed.

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c. Cutoff Time for Deposit of Variation Margin, etc.	<ul style="list-style-type: none"> With respect to Variation Margin, etc., the Clearing Participant, with respect to whose account the amount calculated by account is negative, shall deposit the relevant amount by 11:00 a.m. on the business day immediately following JSCC's notice. 	<ul style="list-style-type: none"> Deposit may be made in the amount after netting with Initial Margin. See Item No. 8, (2), d.
(2) Method of Deposit of Margin		
a. Deposit and Return of Margins in Cash	<ul style="list-style-type: none"> Deposit and return of Initial Margin, Intraday Margin and Variation Margin, etc. in cash shall be made through BOJ current account. 	<ul style="list-style-type: none"> Account transfer through Fund Settlement Banks will not be used, and the process will be unified to the method using current account of BOJ. Intraday Margin shall be deposited as Initial Margin. (The same shall apply in Item No. 8, (2), b.)
b. Deposit and return of Margin in Substituted Securities	<ul style="list-style-type: none"> With respect to Initial Margin and Intraday Margin, deposit of Substituted Securities (JGBs or US Treasuries) in lieu of cash is allowed. Deposit and return of JGBs will be processed through account transfer on BOJ JGB Book-Entry System. Deposit and return of US Treasuries will be made through transfer between the accounts of Clearing Participant's local custodian and JSCC's local custodian using FED-WIRE. 	<ul style="list-style-type: none"> Same handling as current system.
c. Notification related to	<ul style="list-style-type: none"> When depositing and accepting return of Initial Margin, Intraday 	

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Deposit and Return of Margins	<p>Margin and Variation Margin, etc., Clearing Participant shall notify in the manner prescribed by JSCC.</p> <ul style="list-style-type: none"> Notification related to return shall be made by 11:00 a.m. 	<ul style="list-style-type: none"> Because it is envisaged that the Required Amount of Margins would vary at all times after commencement of CPT, notification of return will not be accepted after commencement of CPT. Return notification cutoff time may be changed as a result of introduction of trust scheme.
d. Netting of Initial Margin and Variation Margin, etc.	<ul style="list-style-type: none"> Clearing Participant will net the Required Amounts of Initial Margin and Variation Margin, etc. calculated by account, and if there is a shortfall when comparing the said Required Amount and amount deposited as Initial Margin, it shall eliminate such shortfall by the cutoff time for deposit of Initial Margin and Variation Margin, etc. When the amount of Variation Margin, etc. obtained by account is negative and if there is a shortfall when comparing to the cash portion of amount deposited as Initial Margin related to the relevant account, such Clearing Participant shall eliminate such shortfall by deposit of cash (see Annex 2). 	<ul style="list-style-type: none"> For Clearing Participants which do not wish to have netting treatment with respect to deposit and return of Initial Margin and Variation Margin, etc., deposit and return on a gross basis will also be allowed. If a Clearing Participant has deposited cash in excess of the Required Initial Margin Amount, such excess cash portion will be used for deposit of Variation Margin with respect to the relevant account. However, if the Clearing Participant does not wish to have such treatment, it is allowed to give notification of deposit and return on a gross basis and pay/receive cash based on such notification.

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	<ul style="list-style-type: none"> If the Clearing Participant, with respect to whom the amount of Variation Margin, etc. obtained by account is positive, does not give notification of return with respect to the relevant Variation Margin, etc., such Variation Margin, etc. shall be deemed to have been deposited by the relevant Clearing Participant as Initial Margin with respect to the relevant account. 	
9. Handling of Margins of Clearing Customers	<ul style="list-style-type: none"> For calculation of Required Initial Margin Amount applicable to Clearing Customers (including Affiliates), the holding period shall be set as 7 days. 	
(1) Margin Deposit Method with respect to Clearing Customer		
a. Direct Deposit of Initial Margin and Intraday Margin	<ul style="list-style-type: none"> Initial Margin and Intraday Margin of a Clearing Customer shall be deposited with JSCC through the Clearing Participant as its agent. When depositing Initial Margin to be deposited by itself or by a Clearing Customer, Clearing Participant shall give notification to JSCC by categorization of its own account or each Clearing Customer's account. 	<ul style="list-style-type: none"> Same handling as current procedures.
b. Substituted Deposit of Initial Margin and Intraday Margin	<ul style="list-style-type: none"> In addition to above a., Clearing Participant on Customer Account is allowed to deposit its own cash or Substituted Securities in an amount at least equal to the Customer Initial Margin (cash or Substituted Securities) deposited by Clearing Customer with Clearing Participant on Customer Account. 	

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	<ul style="list-style-type: none"> In the event of Substituted Deposit, Clearing Participant shall report the amount of Customer Initial Margin actually deposited by Clearing Customer (or their mark-to-market value in case of Substituted Securities) to JSCC on each business day. 	
c. Margin Deposit Methods	<ul style="list-style-type: none"> Clearing Customer shall deposit and receive Margins with Clearing Participant on Customer Account in the pre-agreed manner. 	
(2) Netting of Initial Margin and Variation Margin, etc. to be conducted by Clearing Customer and Clearing Participant on Customer Account	<ul style="list-style-type: none"> Clearing Customer will net the Required Amounts of Initial Margin and Variation Margin, etc. with respect to its own account, and if there is any shortfall when comparing the relevant Required Amount and amount deposited as Initial Margin with respect to its own account, it shall eliminate such shortfall by the cutoff time for deposit of Initial Margin and Variation Margin. When the amount of Variation Margin, etc. with respect to its own account is negative, if there is any shortfall when comparing such negative amount to cash amount deposited as Initial Margin, the Clearing Customer shall eliminate such shortfall by depositing cash. 	<ul style="list-style-type: none"> Netting of Initial Margin and Variation Margin, etc. to be conducted by Clearing Customer and Clearing Participant on Customer Account shall be handled in the same manner as Item No. 8, (2), d. If the parties have agreed in advance, payment/receipt on a gross basis between Clearing Customer and Clearing Participant on Customer Account is allowed. If cash is deposited in excess of the Required Initial Margin Amount, such excess cash amount shall be used for deposit of Variation Margin, etc. However, if parties do not wish to have such treatment, they may notify deposit and return on a gross basis, and pay/receive cash based on such notification.

Item	Details	Remarks
(3) Cutoff Time for Deposit of Margins of Clearing Customers	<ul style="list-style-type: none"> • Cutoff time for deposit of Margins from Clearing Customer to Clearing Participant on Customer Account shall be the time agreed between the parties not later than the prescribed deposit cutoff time of JSCC. • However, if it is practically difficult for Clearing Customer to deposit Margins to Clearing Participant on Customer Account by such prescribed deposit cutoff time, Clearing Participant on Customer Account and Clearing Customer may designate the time agreed between Clearing Participant on Customer Account and Clearing Customer in advance, which shall not be later than the second day (excluding Business Holidays, the same shall apply hereinafter) following the cutoff time prescribed by JSCC, as the cutoff time for deposit of Margins. 	<ul style="list-style-type: none"> • In consideration of operational feasibility, an extension of deposit cutoff time is allowed with an agreement between the parties with respect to payment/receipt of Margins between Clearing Participant on Customer Account and Clearing Customer. • Even if there is an agreement between Clearing Customer and Clearing Participant on Customer Account, if there is a shortfall in Margin with respect to the relevant Clearing Customer, Clearing Participant must deposit the amount equal to such shortfall with JSCC at its own expense.
10. Clearing Fund Deposit Method	<ul style="list-style-type: none"> • If Clearing Fund is to be deposited and returned in cash, it shall be made through current account of BOJ in the same manner as Margins. • When depositing and accepting return of Clearing Fund, Clearing Participant shall give notification as prescribed by JSCC in the same manner as Margins. 	<ul style="list-style-type: none"> • Deposit and return of Substituted Securities shall be processed in the same manner as Margins. • Clearing Fund calculation method shall be the same as current structure.
11. Fund Settlement	<ul style="list-style-type: none"> • When Clearing Participant gives notification of deposit and return 	<ul style="list-style-type: none"> • If a Clearing Participant does not wish to have

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	<p>of Margins and Clearing Fund to JSCC at one time, as between JSCC and Clearing Participant, the net amount of deposit and return based on such notification shall be paid / received.</p>	<p>such treatment, notification of deposit and return on gross basis may be given, and cash may be paid/received based on such notification.</p>
<p>12. Transfer of Position, etc. upon Default of Clearing Participant on Customer Account</p>	<ul style="list-style-type: none"> • In the event of a default of Clearing Participant on Customer Account who acts as agent for Clearing Customer (excluding Affiliate, the same shall apply in this Item No. 12), such Clearing Customer may transfer positions it holds to other Clearing Participant with an approval of such other Clearing Participant. 	<ul style="list-style-type: none"> • Position transfer by Affiliate which is the customer of Clearing Participant on Customer Account shall not be allowed, in principle, and handling of holding period for calculation of Initial Margin of Affiliate in this case shall be 5 days, which is the same as current practice. • If, exceptionally, Affiliate desires to transfer its position upon default of Clearing Participant on Customer Account, such Affiliate shall notify such effect to JSCC in advance. The Affiliate having given above-mentioned notice shall be treated in the same manner as Clearing Customer which is not an Affiliate, such as setting holding period for calculation of Initial Margin as 7 days.
<p>(1) Designation of Back-up Clearing Broker</p>	<ul style="list-style-type: none"> • Clearing Customer may designate other Clearing Participant in advance as its Back-up Clearing Broker to which its position will be transferred when Clearing Participant on Customer Account which is currently engaging in brokerage for clearing for such Clearing Customer defaults. 	<ul style="list-style-type: none"> • Clearing Participants eligible for designation as Back-up Clearing Brokers are limited to those which have obtained approval of JSCC for its business execution structure related to Client Clearing. • Designation of multiple Back-up Clearing

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	<ul style="list-style-type: none"> • Clearing Customer who intends to designate a Back-up Clearing Broker shall conclude Clearing Brokerage Agreement with the relevant Back-up Clearing Broker in advance, agree on the position transfer upon default of Clearing Participant on Customer Account, and notify JSCC of such designation. • In order to achieve smooth position transfer upon default of Clearing Participant on Customer Account acted as a broker for the Clearing Customer, the Clearing Customer and the Back-up Clearing Broker shall make efforts to put in place the arrangement therefor in advance. • It should be permitted for Back-up Clearing Broker and Clearing Customer to establish the conditions for Back-up Clearing Broker's acceptance of transfer of Clearing Customer's position, and agree to the acceptance by Back-up Clearing Broker of transfer of positions if the said conditions are met, in advance. 	<p>Brokers by a Clearing Customer will be allowed.</p> <ul style="list-style-type: none"> • If Clearing Customer uses multiple Clearing Participants as its broker to engage in Brokerage for Clearing of Securities, etc. related to IRS Transactions at ordinary time, such Clearing Customer is allowed to designate such Clearing Participant on Customer Account as its Back-up Clearing Broker. • Before occurrence of a default of Clearing Participant on Customer Account, a client may transfer its positions to other Clearing Participant on Customer Account by using Position Transfer scheme applicable at ordinary time. See Item No. 7. (3). • Clearing Customer shall make efforts to designate Back-up Clearing Broker.

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	<ul style="list-style-type: none"> • 	
(2) Transfer of Positions to other Clearing Participant	<ul style="list-style-type: none"> • Upon default of Clearing Participant on Customer Account, Clearing Customer may, upon approval of Back-up Clearing Broker, transfer positions it holds to Back-up Clearing Broker. 	<ul style="list-style-type: none"> • Transfer of positions will be allowed through the same procedure when the position transfer is accepted by a Clearing Participant other than Back-up Clearing Broker designated in advance.
a. Position Transfer Procedures	<ul style="list-style-type: none"> • To transfer positions to Back-up Clearing Broker, Clearing Customer shall apply for position transfer to Back-up Clearing Broker. • When accepting the application for position transfer from a Clearing Customer, Back-up Clearing Broker shall submit the position transfer application form prescribed by JSCC, filled with necessary information, by the date and time designated by JSCC as position transfer deadline. • In the calculation of Initial Margin and Variation Margin, etc. Requirements at 4:00 p.m. on the date of receipt of application for position transfer, JSCC will calculate Required Amount of Margins, etc. for each account of Successor Clearing Participant assuming the position transfer, and will approve position transfer on condition that Successor Clearing Participant deposits Margins, 	<ul style="list-style-type: none"> • See b. below for date and time designated as position transfer deadline. • If Clearing Customer who intends to transfer its position fails to deposit Margins, etc. required after the position transfer through Successor Clearing Participant, the position transfer shall not become effective.

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	<p>etc. in the amount at least equal to the Required Amount by the deposit deadline on the following business day. In this case, Clearing Customer which intends to transfer its position shall deposit Margins, etc. to JSCC through Successor Clearing Participant.</p>	
<p>b. Position Transfer Deadline</p>	<ul style="list-style-type: none"> • In order to realize prompt default settlement, the position transfer deadline shall be the second day following the date of acknowledgement of default of Defaulting Clearing Participant, in principle. • However, if Clearing Customer and Back-up Clearing Broker have established the system that enables the realization of smooth position transfer in advance and if prompt position transfer can be expected based on the status of progress of the position transfer process, JSCC may extend the position transfer deadline based on the advice of Default Management Committee. • Whether or not to approve an extension of the position transfer deadline will be judged daily and the extension may be allowed up to 6th business days following the date of acknowledgement of default at the longest. 	<ul style="list-style-type: none"> • The Clearing Customer who desires to have the position transfer deadline extended shall request such extension to JSCC directly. • Details of system arrangement between Clearing Customer and Back-up Clearing Broker which is a condition for extension of position transfer deadline shall be as per Annex 3.
<p>c. Handling of Position Transfers to Multiple Clearing Participants</p>	<ul style="list-style-type: none"> • Clearing Customer may split positions it holds and transfer its positions to multiple Back-up Clearing Brokers, etc. • When the position is to be split and transferred to multiple Clearing Participants, in the calculation of Initial Margin and 	<ul style="list-style-type: none"> • In the event of a default of Clearing Participant on Customer Account, partial transfer of the position of Clearing Customer will not be allowed from risk management point of view

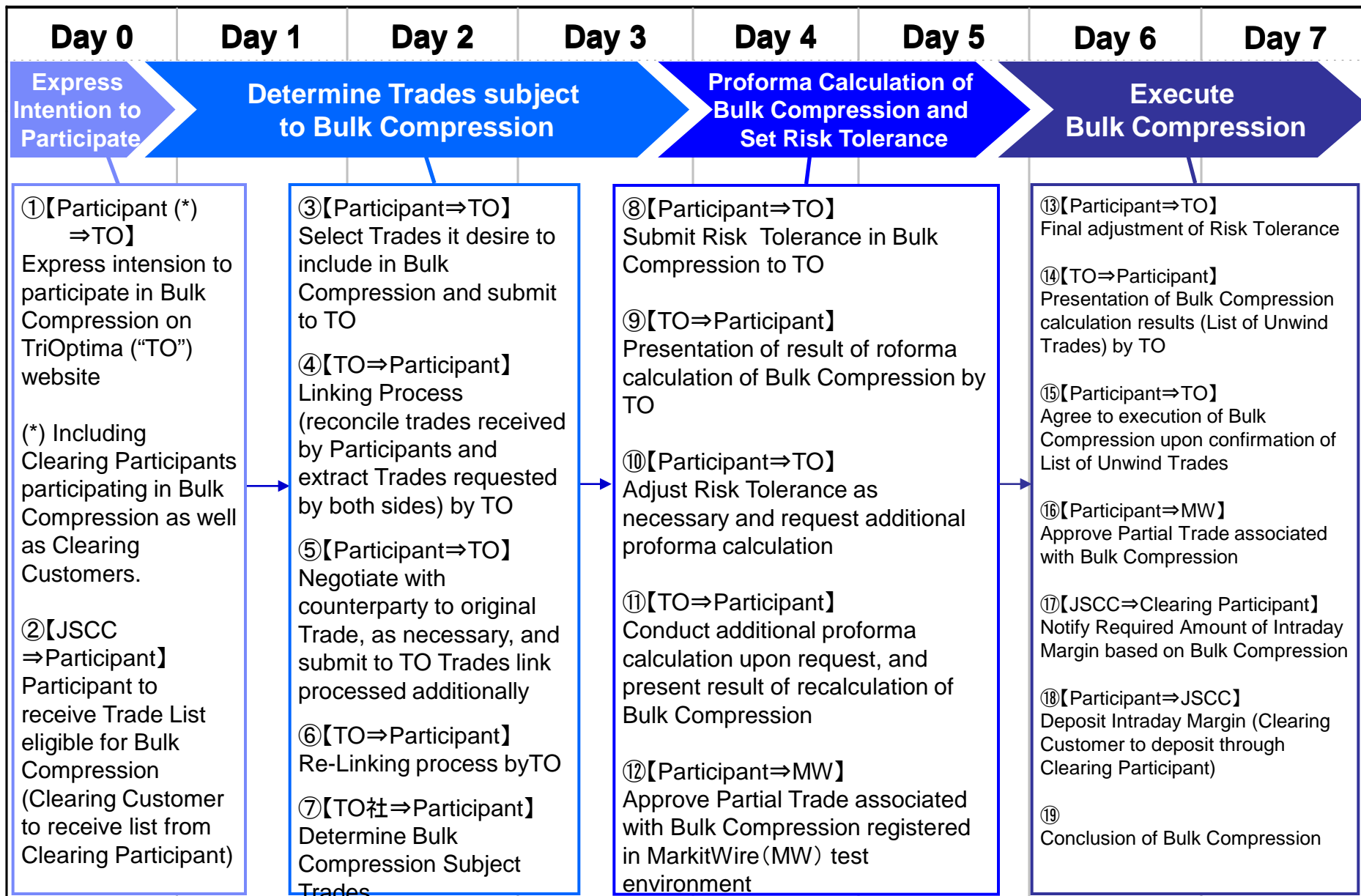
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	Variation Margin, etc. Requirements at 4:00 p.m. on the date of receipt of application for position transfer, Initial Margin and Variation Margin, etc. for each Successor Clearing Participant required after the position transfer will be calculated, and if any shortfall arises with respect to such Initial Margin, etc., the Clearing Customer shall deposit the amount equivalent to such shortfall to JSCC by the deposit deadline on the following business day.	related to positions not transferred.
d. Transfer of Initial Margin	<ul style="list-style-type: none"> • When a Clearing Customer has transferred its positions, Initial Margin deposited by such Clearing Customer shall be deemed to have been deposited through Successor Clearing Participant as its agent (transfer of Initial Margin). • If position is split and transferred to multiple Clearing Participants, a split and a transfer of Initial Margin currently deposited by the relevant Clearing Customer to multiple Clearing Participants will be allowed. 	<ul style="list-style-type: none"> • If Initial Margin of Clearing Customer is split and transferred to multiple Clearing Participants, such transfer shall be performed in accordance with the notification of the relevant Clearing Customer.
(3) Handling when Position Transfer has not Occurred		
a. Handling of Clearing Customer Positions not Transferred	<ul style="list-style-type: none"> • Positions of Clearing Customer whose position is not transferred to other Clearing Participant or which is in default, etc. simultaneously with Clearing Participant on Customer Account shall be subject to bankruptcy settlement auction after hedging such positions. 	<ul style="list-style-type: none"> • In principle, hedge transaction and auction will be conducted by aggregating positions on house account and of other Clearing Customers of Defaulting Clearing Participant.

Item	Details	Remarks
	<ul style="list-style-type: none"> In the event of a default of Clearing Participant on Customer Account, Clearing Customer may not execute a new transaction or process early termination of the existing position through such Clearing Participant on Customer Account. 	<ul style="list-style-type: none"> If Clearing Customer uses multiple Clearing Participants as its broker to engage in Brokerage for Clearing of Securities, etc. related IRS Transactions at ordinary time, it may execute new transactions through such Clearing Participant(s) on Customer Account other than Defaulting Clearing Participant.
<p>b. Handing of Profits and Losses related to Clearing Customer Positions</p>	<ul style="list-style-type: none"> With respect to Clearing Customer positions that have not been transferred by the position transfer deadline and become subject to hedge transactions and bankruptcy settlement auction, the attribution of profits and losses after a default of Clearing Participant on Customer Account shall be treated as follows: <ul style="list-style-type: none"> Profits and losses accrued by position transfer deadline <ul style="list-style-type: none"> ✓ They will be treated as profits and losses accrued with respect to positions of each Clearing Customer. Profits and losses accrued on and after the business day immediately following position transfer deadline (day subject to hedge transaction and bankruptcy settlement auction) <ul style="list-style-type: none"> ✓ To be prorated by Required Initial Margin Amount as of the date of the position transfer deadline. The claims and obligations between Defaulting Clearing Participant and Clearing Customer after default of Clearing Participant on Customer Account will be subject to Close-out Netting under 	<ul style="list-style-type: none"> See Annex 4 for details of method proration.

Item	Details	Remarks
	Clearing Brokerage Agreement.	
13. Settlement Performance Guarantee Structure	<ul style="list-style-type: none"> • Same as current handling. 	
14. Handling of Fees	<ul style="list-style-type: none"> • Handling of clearing fees and other fees related to Clearing Customers (excluding Affiliates) will be subject to separate review. 	
15. Implementation Timing (Plan)	<ul style="list-style-type: none"> • These structures shall be implemented on and after February 24, 2014 (subject to approval of regulatory authorities). 	

== End of Document ==

Detailed Operational Flow in Bulk Compression Procedure



Netting of Margins (Illustration)

Margin Report (Illustration / Excerpt)

* Surplus is expressed as "0" on Margin Report.

Collateral Type	2 nd Layer Account Type	Required Amount (A)			Deposited Amount (D)			Margin Call (Shortfall*)	
		(B)+(C)	IM (B)	VM, etc.(C)	(E)+(F)	Cash (E)	Substituted Securities(F)	(D)-(A)	Cash (E)-(C)
Margin	House	900	1,000	-100	1,200	200	1,000	0	0
	Customer ①	2,000	1,900	100	2,500	0	2,500	0	-100
	Customer ②	1,100	1,000	100	800	300	500	-300	0

a. Shortfall in aggregate amount (cash + Substituted Securities) (D-A)
 → Shortfall needs to be eliminated (Substituted Securities acceptable)

b. Shortfall in cash amount (E-C)
 → Shortfall needs to be eliminated by cash deposit.

- a. Treatment when there is a shortfall in aggregate amount (cash plus Substituted Securities)
- Clearing Participant shall compare Required Amount after netting of IM and VM, etc. (A column) and IM Deposit Amount (D column) by each 2nd layer account, and eliminate shortfall, if any (posting of Substituted Securities acceptable).
 - No deposit is required for House and Customer ①.
 - Additional deposit of 300 will be required for Customer ②.
- b. Treatment when there is cash shortfall
- Compare Required VM, etc. Amount (C column) and IM (Cash) (E column), and eliminate shortfall, if any.
 - No additional deposit is required for House and Customer ②.
 - Additional deposit of 100 in cash will be required for Customer ①.

Details Assumed as System Arrangement between Clearing Customer and Back-up Clearing Participant
which is Condition for Extension of Position Transfer Deadline

Back-up Clearing Broker	Client
<ul style="list-style-type: none"> ➤ Periodic provision of information to client regarding its credit line, etc. (provision of information on the size of positions it may assume) 	<ul style="list-style-type: none"> ➤ Periodic confirmation with Back-up Clearing Broker as to whether or not then current positions may be transferred under the predetermined conditions (including credit standing monitoring)
<ul style="list-style-type: none"> ➤ Establishment of operational procedures related to payment and receipt of Margins required daily after position transfer (such as method of delivery/receipt of information related to client's positions, confirmation of account information to be used for payment/receipt of funds, arrangement of system for remittance, securing human resources) 	
<ul style="list-style-type: none"> ➤ Periodic drills assuming position transfer 	
<ul style="list-style-type: none"> ➤ Summarization of conditions for position transfer (risk amount of acceptable positions and form of agreement (establishment of credit line or commitment line), etc.) 	

== End of Document ==

[Basic Concept]

- In the case where, following a Clearing Participant's default, Affiliate's and Client's portfolios were aggregated to conduct Hedge transaction, Profit & Loss due to the change in NPV resulting from the aggregation of portfolios and cost pertaining to the hedge transaction ("P&L and Hedge Cost") shall be allocated to each portfolio according to IM Requirement as of the migration to such hedge transaction.
- In case the Client's account has become subject to Hedge transaction, the change in NPV resulting after that shall be allocated according to IM Requirement for each portfolio as of the time of additionally becoming subject to hedge transaction. The change in NPV allocated to portfolios that were aggregated shall be allocated to each portfolio according to IM Requirement as of the aggregation of such portfolio and migration to Hedge transaction.
- Auction related costs shall be allocated according to IM Requirement as of the migration to Hedge transaction for each portfolio.
- * The IM Requirement with Time Horizon adjusted to 5 days shall be used for proration also for Client's IM Requirement.

< Method of Allocating IM Requirement and P&L, and Hedge Cost (Provisional) and P&L during the Default Settlement Period >

	[Status of IM Requirement and Profit & Loss]				[Method of Allocating P&L]	
Day T (Date of Default)		House	Affiliate	Client 1	Client 2	
	IM Requirement	400	100	200	300	
		(Day T) → Hedge Trading		Adjusting Transferee	Adjustin	
		House+Affiliate		Client 1	Client 2	
	P&L/Hedge Cost	-200		+25	-75	Prorate P&L for House and Affiliate (for Day T) by IM Requirement on Day T (House 400, Affiliate 100) [See 1. (1) Day T in the next section]
T+ Day 1		House+Affiliate		Client 1	Client 2	
	IM Requirement	100		230	320	
		(T+ 1 day) → Hedge Trading			Adjusting Transferee	
		House+Affiliate+Client 1			Client 2	
	P&L/Hedge Cost	-99			-30	<ul style="list-style-type: none"> • Prorate P&L for House, Affiliate, and Client 1 (for T + 1 day) by IM Requirement on T + 1 (House + Affiliate: 100, Client 1: 230) • Further prorate House + Affiliate by IM Requirement on Day T (House 400, Affiliate 100) [See 1. (2) T + 1 day in the next section]
T+ Day 2 - (Deadline for Position Transfer)		House+Affiliate+Client 1			Client 2	
	IM Requirement	110			340	
		(T+ 2 days) → Hedge Trading				
		House + Affiliate + Client 1 + Client 2				
	P&L/Hedge Cost	-135				<ul style="list-style-type: none"> • Prorate P&L for House, Affiliate, and Client 1 (for T + 2 days or later) by IM Requirement on T + 2 (House + Affiliate + Client 1: 110, Client 2: 340) • Further prorate House + Affiliate + Client 1 by IM Requirement on T + 1 (House + Affiliate: 100, Client 1: 230) • Further prorate House + Affiliate by IM Requirement on Day T (House 400, Affiliate 100)
T+ Day n (Date of Auction)	Auction Cost	-107				<ul style="list-style-type: none"> • Prorate Auction Cost by IM Requirement on the date of migration to hedge transaction for each portfolio (House 400 (Day T), Affiliate 100 (Day T), Client 1 230 (T + 1 day), Client 2 340 (T + 2 days)) [See 2. Allocatin of Auction Cost in the next section]

< Calculation Method in More Detail >

1. Allocation of P&L / Hedge Cost

(1) Day T

	House	Affiliate	Client 1	Client 2	
P&L / Hedge Cost	-200		+25	-75	
1) Prorate according to IM Requirement on Day T	-160	-40	+25	-75	Prorate P&L and Hedge Cost for "House + Affiliate" according to IM Requirement on Day 1 (*) * House: 400, Affiliate : 100

(2) T + 1 day

	House	Affiliate	Client 1	Client 2	
P&L / Hedge Cost		-99		-30	
Prorate according to IM Requirement on T + 1 day	-30		-69	-30	Prorate P&L and Hedge Cost for "House + Affiliate + Client 1" according to IM Requirement on T + 1 day (*) * House: 400 + Affiliate: 100, Client 1: 230
2) Prorate according to IM Requirement on Day T	-24	-6	-69	-30	Prorate P&L and Hedge Cost for "House + Affiliate" according to IM Requirement on Day 1 (*) * House: 400, Affiliate : 100

(3) T + 2 days

	House	Affiliate	Client 1	Client 2	
P&L / Hedge Cost		-135			
Prorate according to IM Requirement on T + 21 days		-33		-102	Prorate P&L and Hedge Cost for "House + Affiliate + Client 1 + Client 2" according to IM Requirement on T + 2 days (*) * House: 400 + Affiliate + Client 1 : 110, Client 2: 340
Prorate according to IM Requirement on T + 1 day	-10		-23	-102	Prorate P&L and Hedge Cost for "House + Affiliate + Client 1" according to IM Requirement on T + 1 day (*) * House: 400 + Affiliate: 100, Client 1: 230
3) Prorate according to IM Requirement on Day T	-8	-2	-23	-102	Prorate P&L and Hedge Cost for "House + Affiliate" according to IM Requirement on Day 1 (*) * House: 400, Affiliate : 100

2. Allocation of Auction Cost

	House	Affiliate	Client 1	Client 2	
Auction Cost	107				
4) Prorate according to IM Requirement on the date for hedging	-40	-10	-23	-34	Prorate according to IM Requirement on the date of migration to hedge transaction for each portfolio (House 400 (Day T), Affiliate 100 (Day T), Client 1 230 (T + 1 day), Client 2 340 (T + 2 days)). * House: 400 (Day T), Affiliate : 100 (Day T),

3. Calculation of IM Referral Amount

	House	Affiliate	Client 1	Client 2	Total
IM Requirement on the Date of Default	400	100	200	300	1000
P&L / Hedge Cost					
1) Day T	-160	-40	+25	-75	-250
2) T + 1 day	-24	-6	-69	-30	-129
3) T + 2 days and later	-8	-2	-23	-102	-135
4) Auction Cost	-40	-10	-23	-34	-107
IM Referral Amount	168	42	110	59	379

Fees related to Client Clearing, etc.

Title	Fee system	Remarks
1. Clearing Fee on Client Clearing	<ul style="list-style-type: none"> • New Clearing Fee <ul style="list-style-type: none"> – As for a newly cleared trade on Client Clearing, it shall be JPY720 for Notional Amount of JPY100mil • Fee on balance of cleared trade <ul style="list-style-type: none"> – As for a balance of cleared trade on Client Clearing, it shall be JPY25/month for Notional Amount of JPY100mil 	
2. Account Opening Fee on Client Clearing	<ul style="list-style-type: none"> • As for Second Tier account on Client Clearing, it shall be JPY100,000/opening one account 	
3. Voluntary Termination Fee	<ul style="list-style-type: none"> • JPY1,000/ one voluntary termination 	<ul style="list-style-type: none"> • Same as current de-clear fee
4. Bulk Compression Fee	<ul style="list-style-type: none"> • Fee on cancellation of cleared trades in line with bulk compression shall be the same as voluntary termination fee, and fee on new clearing shall be the same as standard new clearing fee. 	
5. Collateral Fee	<ul style="list-style-type: none"> • Fee on depositing collaterals such as IM, etc. will be considered in line with an introduction of trust scheme on collateral 	

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