Settlement Scheme upon Participant Default / Framework of Loss Compensation

Process to close-out a defaulting Clearing Participant's portfolio:

① Default Management Committee would be convened

・Consists of five Clearing Participants determined by JSCC in advance

② Execution of risk hedges for the defaulting Clearing Participant's portfolio

・Execute hedge transactions to mitigate price fluctuation risk of the defaulting Clearing Participant's portfolio
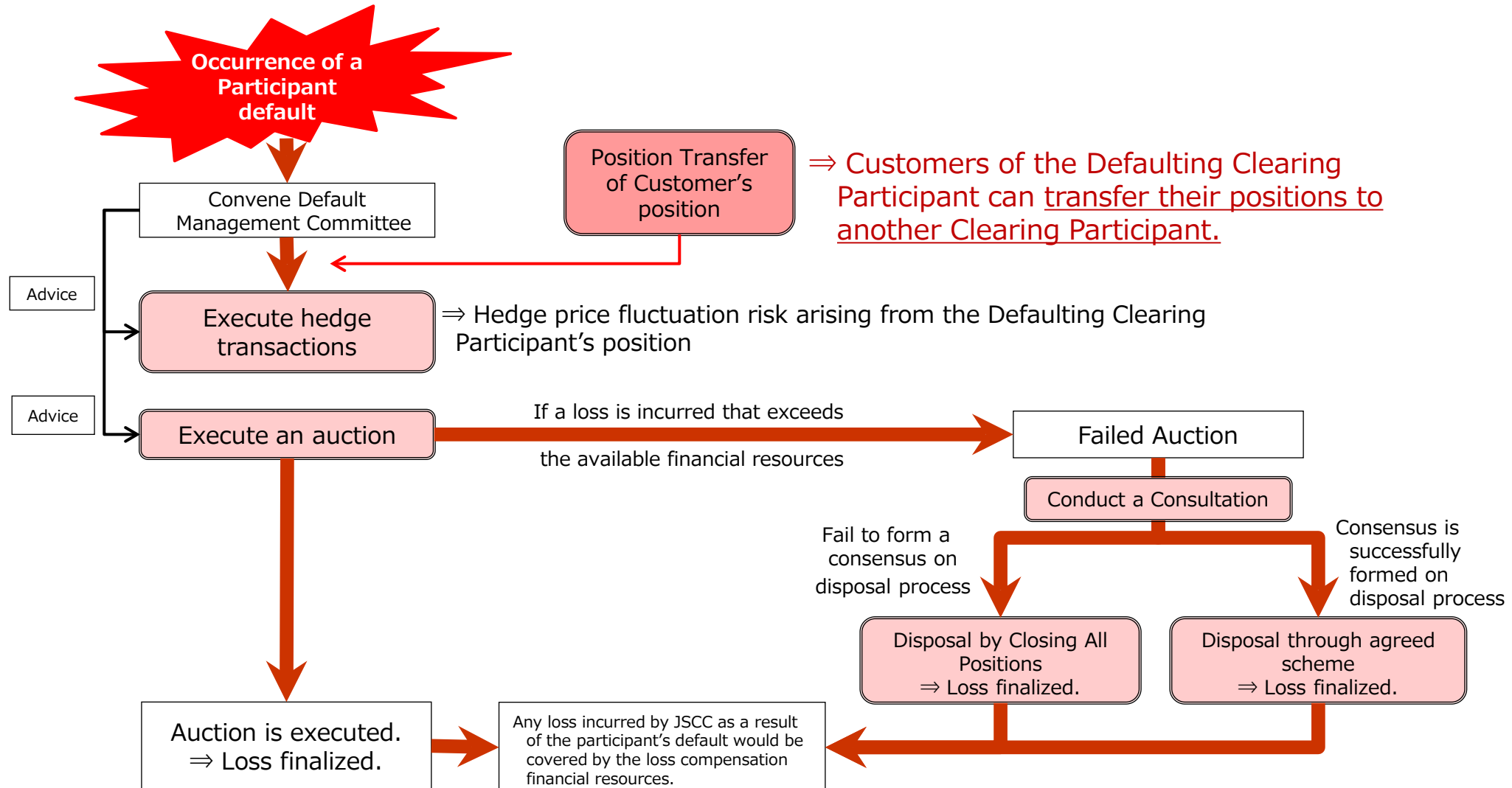・The Default Management Committee is consulted when determining hedging methods

③ Execution of a Default Auction

・Clearing Participants (excluding Specified Successor Financial Institutions) are obligated to participate in the Default Auction.

・In the auction, the Clearing Participant that submits the best bid price would win the defaulting Clearing Participant's portfolio and any hedge transactions.

(※) A Default Settlement Fire Drill ("Fire Drill") is conducted once a year to test the above process flow. All participants are obligated to participate in each Fire Drill.

(※) Members of the Default Management Committee are re-appointed (by two or three participants) every six months.

Settlement Scheme upon Participant Default / Framework of Loss Compensation

Process Flow at time of Clearing Participant's default

Occurrence of a Participant default

Convene Default Management Committee

Position Transfer of Customer's position

⇒ Customers of the Defaulting Clearing Participant can transfer their positions to another Clearing Participant.

Advice

Execute hedge transactions

⇒ Hedge price fluctuation risk arising from the Defaulting Clearing Participant's position

Advice

Execute an auction

If a loss is incurred that exceeds the available financial resources

Failed Auction

Conduct a Consultation

Fail to form a consensus on disposal process

Consensus is successfully formed on disposal process

Disposal by Closing All Positions
⇒ Loss finalized.

Disposal through agreed scheme
⇒ Loss finalized.

Auction is executed.
⇒ Loss finalized.

Any loss incurred by JSCC as a result of the participant's default would be covered by the loss compensation financial resources.

Settlement Scheme upon Participant Default / Framework of Loss Compensation

Loss Compensation Scheme

· Losses incurred by JSCC as a result of the Clearing Participant's default will be recovered in the following priority order:

1st Tier	Collateral deposited by the Defaulting Clearing Participant (Margin·Clearing Fund)
2nd Tier	First contribution by JSCC (First Tier Settlement Guarantee Reserve)
3rd Tier	Clearing Fund of the non-defaulting Clearing Participants; and Second contribution by JSCC (Second Tier Settlement Guarantee Reserve)
4th Tier	Special Clearing Charge by Non-Defaulting Clearing Participant (Equal to the Clearing Fund contribution of each Non-Defaulting Clearing Participant)
5th Tier	Contribution by Non-Defaulting Clearing Participants who receive Variation Margin (※ Capped at the amount equivalent to the loss incurred by the Defaulting Clearing Participant, prorated according to the amount of net receiving Variation Margin.)