

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

① Default Management Committee would be convened

- Consists of five Clearing Participants (for JPY) 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

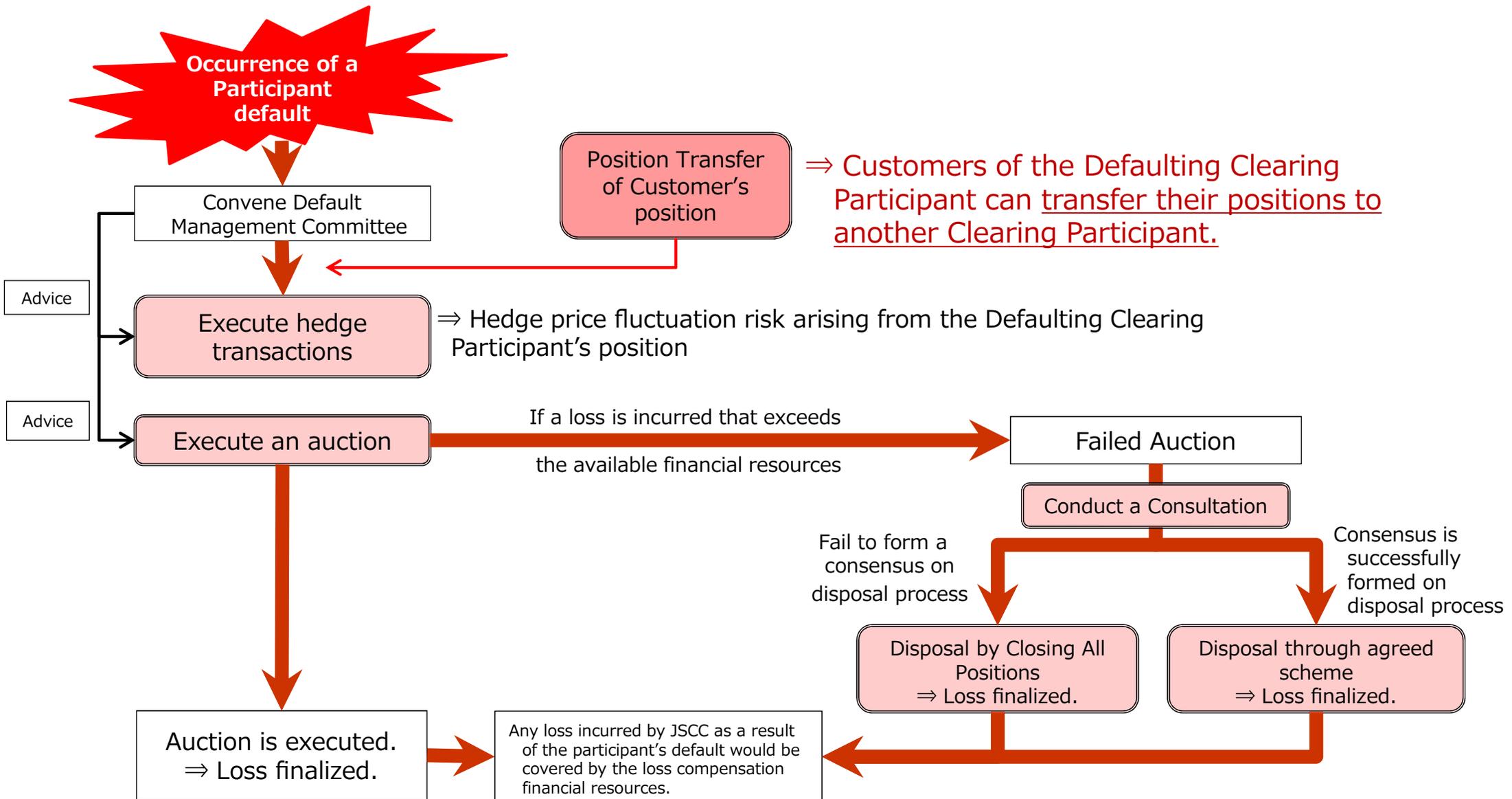
- Clearing Participants (excluding Specified Successor Financial Institutions) are obligated to participate in the Default Auction.
- In the auction, the Clearing Participant that submits the best bid price would win the defaulting Clearing Participant's portfolio and any hedge transactions.

(※) 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.

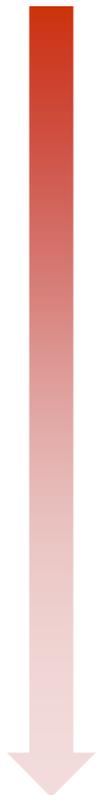
Settlement Scheme upon Participant Default / Framework of Loss Compensation

Process Flow at time of Clearing Participant's default



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 (JPY 2 billion)
3rd Tier	Clearing Fund of the non-defaulting Clearing Participants; and Second contribution by JSCC (JPY 2 billion)
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.)