Margin

As of 2018/12/3

- Margin is collateral required to cover the interest rate fluctuation risk arising from outstanding positions.
  - Clearing Participants and Customers (Affiliates & Clients (*)) are required to deposit Margin corresponding to their respective outstanding positions.

    (*) Customers in the same corporate group as Clearing Broker are called "Affiliates," and other Customers are called "Clients."
  - Customers deposit Margin to JSCC through their Clearing Participant.
- There are three types of Margin, which are calculated separately for each Clearing Participant and each Customer.

Type	Outline	Deposit Method	Calculation Method / Other
Initial Margin	Covers the expected losses from interest rate fluctuations, during the time taken to complete position liquidation following a Clearing Participant default	Daily Deposited in cash or eligible securities collateral (JGB / US Treasuries)	• Covers average of top 1% of loss from NPV fluctuation during the previous 1,250 days (+ stress scenarios, such as Lehman Crisis) ("Expected Shortfall" method) • 5-day holding period (7-day for Client positions) • Liquidity based add-on scheme (liquidity charge) • (Customer only) 10% add-on for "Non-hedge" account
Variation Margin	Covers the risks arising from daily interest rate fluctuations through the daily revaluation of outstanding positions (Mark-To-Market)	Daily Deposited in cash	• Adopted OIS discount in present value calculation • JSCC offers an option of settlement of Mark-To-Market difference as fund settlement (VM fund settlement framework), instead of exchange of VM, to promote compression. A Clearing Participant wishing to use the VM fund settlement framework must notify JSCC of the relevant accounts and trades.
Intraday Margin	Covers intraday price fluctuation risks	Daily Deposited in cash or eligible securities collateral (JGB / US Treasuries)	• Calculate Initial Margin equivalent and Variation Margin equivalent based on positions held at 12:00 each day • Deposited as Intraday Margin

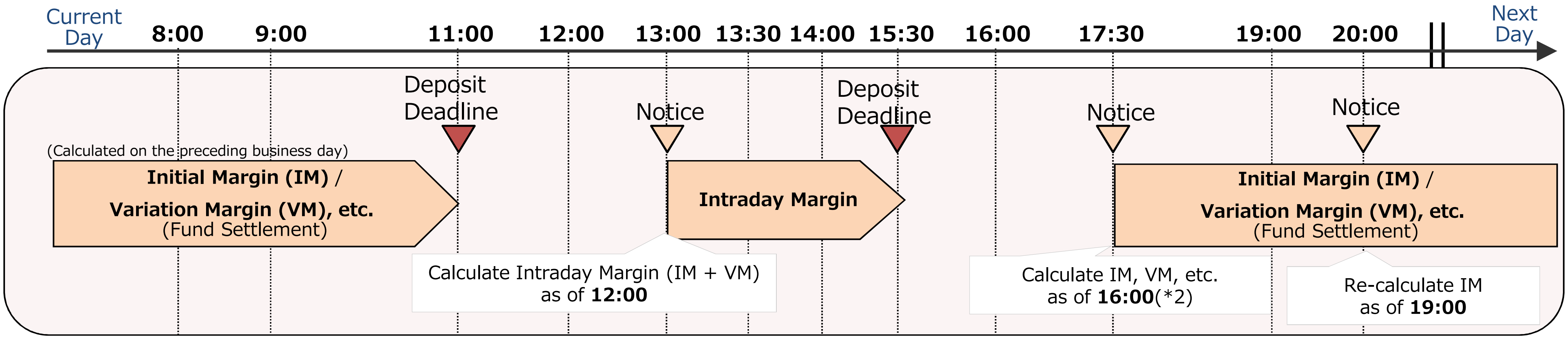
Margin

Netting

- Initial Margin, Variation Margin (or MTM difference), and other cash settlements are calculated for each account, and netted at the account level. (It is also possible to manage settlements on a gross basis, if netting between Initial Margin, Variation Margin, and other cash settlements is not desired.)
- If the resulting "Cash Settlement Amount" is greater than the Initial Margin deposited in the relevant account, additional cash collateral to cover the resulting shortfall must be deposited before the relevant "Deposit Deadline" (*).

(*)Any collateral exceeding the Initial Margin requirement that is on deposit at JSCC could be used to cover the Cash Settlement Amount for the relevant account. However, if such treatment is not desired, it is allowed to request deposit and withdrawal on a gross basis, and settle cash based on such request.

Margin Deposit Procedure (between Clearing Participant and JSCC)



(*2) Calculation is performed based on positions after any Position Transfers, Per-Trade Compression, Blended Rates Compression, or Member-Initiated Compression.

- JSCC's Deposit Deadline applies to a Clearing Participant's Proprietary accounts and each Customer account.
- If it is operationally difficult for a Customer to deposit collateral with its Clearing Broker by the Deposit Deadline, the Clearing Broker must deposit the required collateral to JSCC, from its own funds. The Clearing Broker must then ensure that their Customer provides sufficient collateral to cover the shortfall, within 2 JSCC business days of the date of the occurrence of the shortfall.