

July 27, 2020

Governance Guidelines

Japan Securities Clearing Corporation

1. Purpose

This document outlines the guidelines with respect to Japan Securities Clearing Corporation (hereinafter referred to as “JSCC”)’s governance, such as the roles and responsibilities of the directors.

2. Ownership Structure

- (1) JSCC is established as a joint-stock company, under the Companies Act of Japan, and operates as a Financial Instruments Clearing Organization as well as a Commodity Transaction Clearing Organization, majority owned by Japan Exchange Group, Inc.
- (2) All of JSCC’s clearing activities take place within four Clearing Business units: Listed Products, CDS, IRS, and OTC JGB. Each Clearing Business maintains its own capital and share class, with business decisions made according to resolutions by the general shareholders meeting and class-shareholders meeting.

3. Roles and Responsibilities of the Board of Directors and Directors

- (1) Major roles and responsibilities of the Board of Directors include the following:
 - Approval of, and decision on, high-level policies, strategies, and objectives of JSCC, including the medium-term business plan;
 - Approval of, and decision on, annual budgets and investment proposals;
 - Decision on internal control framework to secure the adequacy of internal procedures, risk management, financial reporting, and compliance;
 - Decision on the appointment and dismissal of the Representative Directors;
 - Decision on the appointment and dismissal of the executive directors;
 - Decision on business execution, with respect to the matters subject to exclusive decision of the Board of Directors, under the relevant laws and regulations; and
 - Supervision over the execution of directors’ duties.
- (2) The Board of Directors shall be responsible for the following matters, which are required of JSCC as the Financial Instruments Clearing Organization and the Commodity Transaction Clearing Organization:

- Documentation and disclosure of its governance arrangements;
- Documentation of roles, responsibilities, functions, and procedures of the Board of Directors;
- Periodic performance review of the Board and directors;
- Documentation of the risk management framework;
- Appropriate consideration to, and disclosure of interests of, direct and indirect participants, when taking important decisions;
- Establishment and maintenance of the required level of the financial resources to cover the loss arising from the Financial Instruments Clearing Service and the Business of Assuming Commodity Transaction Debts (hereinafter referred to as “Clearing Service”); and
- Ensuring disclosure and feedback to all stakeholders, on such required level of financial resources.

4. Board Structure

(1) The Board of Directors consists of up to 14 members, as set forth in the Articles of Incorporation, in principle with the following structure:

- The members of the Board of Directors shall include the director serving as president and other executive directors engaged in business operations; and
- The members of the Board of Directors shall be composed of directors with knowledge and experiences to carry out the Clearing Service appropriately and securely, and with sufficient credible social reputation.

(2) JSCC’s directors shall include independent directors satisfying the following qualifications:

- A person who is not, and has not been for 10 years preceding his/her appointment, JSCC’s executive director or other officer and staff (referring to (a) the President, (b) person other than the President appointed through a board resolution as a director to execute JSCC’s business, (c) other director or executive officer executing JSCC’s business, or (d) employee; the same applies hereinafter);
- For a person who has been a director or a statutory auditor (other than executive director or other officer and staff) within 10 years preceding his/her appointment, a person who has not been JSCC’s executive director or other officer and staff, for 10 years preceding his/her appointment;
- A person who currently is not a member of the Board of Directors, an executive officer, or an employee of JSCC’s parent company;

- A person who currently is not an executive director or other officer and staff, of a subsidiary of JSCC's parent company (for example, a fellow subsidiary); and
- A person who is not a spouse or a relative, within the 2nd degree of relationship, of one of JSCC's directors, executive officers, or employees.

5. Nomination, qualification, and term of Directors

- (1) In accordance with the provisions of the Articles of Incorporation, directors are nominated through a resolution of the class-shareholders meeting.
- (2) When adopting a resolution of agenda to be submitted to the class-shareholders meeting concerning the nomination of the directors, the Board of Directors shall take into consideration such factors as a candidate's experience, qualifications, and expertise in the industry related to financial markets, experience as senior management, academic credentials, and professional qualifications.
- (3) The term of office of directors shall expire at the close of the ordinary general meeting of shareholders relating to the latest business year which ends within two (2) years after their nomination; provided that the term of office of directors elected as a result of an increase in their number or elected to fill vacancies, shall be for the remaining term of office of the other directors currently in office.

6. Operation of the Board of Directors

- (1) Unless otherwise provided for by applicable laws and ordinances, the Board of Directors shall be convened by the director designated by the Board of Directors, who shall act as chairperson thereof.
- (2) If the director appointed as the chairperson of the meeting of the Board of Directors is unable to act at any meeting of the Board of Directors, such meeting shall be convened by another director appointed in an order determined by the Board of Directors in advance, and such director shall act as chairperson thereof.
- (3) When convening a meeting of the Board of Directors, a notice therefor shall be dispatched to each director and each statutory auditor at least three (3) days prior to the date of the meeting; provided, however, that such period of notice may be shortened in case of an emergency.
- (4) A meeting of the Board of Directors may be convened without adopting the relevant procedures upon the unanimous consent of the directors and the statutory auditors.
- (5) A resolution of the Board of Directors shall be adopted at its meeting, upon the presence of a majority of the directors entitled to participate in the resolution and

a majority vote of such presented directors.

- (6) Notwithstanding (5) above, when the Board of Directors requests the IRS Management Committee to review its resolution, which is prescribed in the Interest Rate Swap Clearing Business Rules, and the Committee re-passes its resolution in response to a re-consultation request, and then the Board of Directors proceeds to pass its contradictory resolution. Such resolution of the Board of Directors shall only be adopted with the presence of a majority of the directors entitled to participate in the resolution and a vote of two-thirds (2/3) or more of present directors.
- (7) Notwithstanding (5) above, when the Board of Directors requests the OTC JGB Management Committee to review its resolution, which is prescribed in the Business Rules related to OTC JGB Clearing Business, and the Committee re-passes its resolution in response to a re-consultation request, and then the Board of Directors proceeds to pass its contradictory resolution. Such resolution of the Board of Directors shall only be adopted with the presence of a majority of the directors entitled to participate in the resolution and a vote of two-thirds (2/3) or more of present directors.

7. Restrictions on Competition and Conflicting Interest Transactions

- (1) To prevent a director pursuing his/her own or any third party's interest, sacrificing JSCC's interests, the director shall disclose the material facts on the relevant transactions at a meeting of the Board of Directors, and obtain its approval when engaging in any of the following transactions (hereinafter referred to as "Competition or Conflicting Interest Transactions"):
 - When a director intends to carry out, for himself/herself or for a third party, any transactions which belong to a category of business operated by JSCC;
 - When a director intends to carry out any transactions with JSCC for himself/herself or for a third party; or
 - When JSCC intends to guarantee debts of a director or otherwise to carry out any transactions with a person other than the director, that results in a conflict of interests between JSCC and such director.
- (2) The director who engages in a Competition or Conflicting Interest Transaction shall report the material facts in respect of such Transaction to the Board of Directors without delay.
- (3) The director having special interest in a specific agenda item of the Board of Directors meeting may not vote on the agenda item, and is excluded from the

quorum for the adoption of the resolution in respect of the relevant agenda item.

8. Director's Compensation

Compensation of executive directors who engage in business operations will be determined annually following a review by JSCC's Compensation Committee, based on the performance of each individual, within the amount decided at the general shareholders meeting.

9. Roles and Responsibilities of Executive Officers

- (1) The President shall make decisions on the business for which each executive officer is in charge, and shall preside over the entire management in accordance with JSCC's management policy.
- (2) Executive officers other than the President shall be responsible for strategy planning, development of the plan, and business execution for the business for which he/she is responsible, under direction of the President.
- (3) The President may make changes to the area of responsibility, its contents or other matters at any time, without the consent of other executive officers.

10. Nomination of Executive Officers

- (1) The executive officers are appointed through a Board resolution, as officers to execute JSCC's business operations.
- (2) The term of office of an executive director shall be up to the last day of the business year ending within 1 year after his/her appointment; provided that the term of office of an executive officer elected as a result of an increase in their number or elected to fill a vacancy shall be for the remaining term of office of the other executive officers currently in office.
- (3) The Board of Directors may appoint a senior executive vice president, senior executive officer, and managing executive officer as necessary.

11. Relationship between Executive Officers and Board of Directors and others

- (1) The executive officers may attend meetings of the Board of Directors and express their opinions. In addition, when their attendance is requested, the executive officers shall attend the meeting of the Board of Directors.
- (2) The President shall report to the Board of Directors, and the executive officers other than the President shall report to the President and the Board of Directors, the status of execution of the business which he/she is responsible for, as

necessary.

- (3) When reporting to, or explanations are requested from, the Board of Directors, a director, the Board of Statutory Auditors, a statutory auditor, or an accounting auditor, the President shall promptly respond to the request. The executive officers other than the President shall promptly respond to such requests from the President, the Board of Directors, a director, the Board of Statutory Auditors, a statutory auditor, or an accounting auditor.

12. Operation of Executive Committee

- (1) The Executive Committee shall be comprised of all executive officers, with a purpose of consulting on matters to be discussed by the Board of Directors, and other matters.
- (2) The President shall convene the Executive Committee meeting.
- (3) The Executive Committee meeting shall be held at least once a month.

13. Prohibition

- (1) An executive officer may not receive any personal profit fraudulently or improperly, through transactions for himself/herself or for a third party, by utilizing their position in JSCC.
- (2) While holding the position of executive officer, an executive officer may not simultaneously engage in any business, or hold a position of an officer or employee of any other entity, without the approval of the Board of Directors (except for non-full time officer or employee of an affiliate and non-full time officer or employee of a non-profit organization).
- (3) While holding the position of executive officer, an executive officer may not engage in any business directly relating to the Financial Instruments Business and any business relating to Commodity Futures Contracts.

14. Advisory Committees

The Board of Directors may, through its resolution, establish committees to seek advice on matters considered necessary to fulfill its supervisory responsibilities.

Outlines of the existing advisory committees are as follows:

- Risk Committee

When the Board intends to make a decision on a matter considered necessary to perform its duties related to risks of the Clearing Business, it shall seek the advice of the Risk Committee. The committee members shall be comprised of

- (i) independent directors, (ii) officers of Clearing Participants, clients or clients of Brokerage for Clearing of Securities, having deep insight concerning the matters for consultation, and ability to exercise fair judgment, and (iii) persons other than those falling under (i) or (ii) having deep insight concerning the matters for consultation, and ability to exercise fair judgment.
- **Disciplinary Measures Assessment Committee**
When the Board intends to exercise its authority under the Business Rules of each Clearing Business to take necessary measures against Clearing Participants, it shall seek the advice of the Disciplinary Measures Assessment Committee. The committee members shall be comprised of persons other than officers of Clearing Participants, or officers of the Clearing Participants who have deep insight concerning the matters for consultation and ability to exercise fair judgment.
 - **Listed Products Management Committee**
The Board of Directors shall seek the advice of the Listed Products Management Committee concerning rules and operational matters, related to the Listed Products Clearing Business. Members are appointed from among the Listed Products Clearing Participants in consideration of the distribution of business types and sizes.
 - **CDS Management Committee**
This committee discusses matters for consultation set forth in the Business Rules and CDS Management Committee Rules. Membership consists of all of the CDS Clearing Participants.
 - **IRS Management Committee**
This committee discusses matters for consultation set forth in the Business Rules and IRS Management Committee Rules. Members are appointed from among the IRS Clearing Participants and the shareholders.
 - **OTC JGB Management Committee**
This committee discusses matters for consultation set forth in the Business Rules and JGB OTC Transaction Management Committee Rules. Members are appointed from among the OTC JGB Clearing Participants and the shareholders.
 - **JSCC Determination Committee**
This committee is established to determine matters for the CDS Clearing business, including matters concerning Credit Events and Succession Event. Members are selected from the CDS Clearing Participants.

- CDS Default Management Committee
This committee is established to offer advice on matters such as hedging when the default of a CDS Clearing Participant is determined and bidding during default auctions. Members are selected from the CDS Clearing Participants.
- IRS Default Management Committee
This committee is established to offer advice on matters such as hedging when the default of an IRS Clearing Participant is determined and bidding during default auctions. Members are selected from the IRS Clearing Participants.
- OTC JGB Default Management Committee
This committee is established to offer advice on matters such as hedging when the default of a OTC JGB Clearing Participant is determined and bidding during default auctions. Members are selected from the OTC JGB Clearing Participants.

15. Roles and Responsibilities of Statutory Auditors

- (1) If statutory auditors find that directors engage in misconduct, or are likely to engage in such conduct, or that there are facts in violation of laws and regulations or the Articles of Incorporation, or grossly improper facts, they shall report the findings to the Board of Directors without delay.
- (2) Statutory auditors shall attend the Board of Directors meeting, and shall state their opinions if they find it necessary.
- (3) A statutory auditor shall report the status of execution of his/her duties to the Board of Statutory Auditors from time to time, and must report such status at any time requested by the Board of Statutory Auditors.
- (4) A statutory auditor may attend the Executive Committee meeting and state his/her opinion.

16. Appointment of Statutory Auditors

- (1) The statutory auditors shall be elected by a resolution of the general meeting of shareholders.
- (2) The following matters relating to an appointment of statutory auditors shall be adopted by a resolution of the Board of Statutory Auditors meeting:
 - Consent to the submission of an agenda item relating to an appointment of statutory auditors to the general meeting of shareholders;
 - Request for making an appointment of statutory auditors the purpose of the general meeting of shareholders; and

- Request for a submission of an agenda item relating to an appointment of statutory auditors to the general meeting of shareholders.

17. Roles and Responsibilities of Board of Statutory Auditors

- (1) The Board of Statutory Auditors shall perform following duties:
 - Preparation of audit reports;
 - Appointment and removal of a full-time statutory auditor; and
 - Making decisions on the audit policy, method of investigating the operations and financial status, and other matters regarding the execution of the duties of statutory auditors; provided that this decision may not preclude each statutory auditor from exercising his/her authority.
- (2) In the event of a receipt of a report from a director to the effect that he/she found a fact that is threatened to cause significant damage to JSCC, and in the event of a receipt of a report from an accounting auditor to the effect that he/she found a misconduct relating to the performance of duties of a director, or a material fact in violation of the laws and regulations or the Articles of Incorporation, the Board of Statutory Auditors shall conduct the necessary investigation and take appropriate measures, such as giving advice or recommendation to the directors, depending on the situation.
- (3) In addition to (2) above, the Board of Statutory Auditors shall take measures pursuant to (2) to the extent considered necessary, when receiving a report from a director or an employee.
- (4) To maintain coordination between internal audit and the statutory auditor's audit, the Board of Statutory Auditor and the statutory auditors shall receive a report on the internal audit plan and results from the person responsible for the internal audit.
- (5) To promote an efficient internal audit process, the Board of Statutory Auditors shall keep cooperating with the person responsible for the internal audit.

18. Operation of the Board of Statutory Auditors Business

- (1) The Board of Statutory Auditors shall appoint a chairperson among themselves by its resolution.
- (2) The Board of Statutory Auditors meeting shall be convened at least once in three month; provided, however, that such meeting may be held from time to time if necessary.
- (3) The Board of Statutory Auditors meeting shall be convened and carried out by the

chairperson.

- (4) A resolution of the Board of Statutory Auditors meeting shall be made by a majority vote of the statutory auditors.

19. Internal Control

JSCC establishes basic policies concerning the framework to ensure appropriateness of its business operation (Internal Control Framework), and has established the following frameworks:

- Framework to ensure that the execution of the duties by JSCC's directors and employees complies with all relevant laws, regulations, and the Articles of Incorporation;
- Framework concerning retention and management of information related to the execution of the JSCC's directors duties;
- Rules and other framework concerning management of JSCC's risk of loss;
- Framework to ensure efficient execution of JSCC's directors duties;
- Framework to ensure appropriate business operations within the corporate group comprised of JSCC and its parent and subsidiaries;
- Matters concerning the employees to support the duties of JSCC's statutory auditors, when JSCC's statutory auditors request to have such employees;
- Matters concerning the independence of the employees to support the duties of JSCC's statutory auditors from JSCC's directors;
- Matters for ensuring the effectiveness of the instruction of the statutory auditors to the employees to support the duties of JSCC's statutory auditors;
- Framework for JSCC's directors, executive officers and employees to report to JSCC's statutory auditors;
- Framework to ensure that a person reported to the statutory auditors will not receive disadvantageous treatment by reason of such reporting; and
- Other frameworks to ensure that the audit of the statutory auditors will be effectively carried out.

20. Risk Management

As a framework for business management to systemically control various risks, JSCC carries out its business operation in line with the Risk Appetite Framework.

(1) Definition of Risk

Factor that interferes with business operations in line with the Risk Appetite Framework, and that contains risk that gives rise to a disturbance of JSCC's

business or loss to JSCC.

(2) Definition of Risk Appetite Framework

Framework of business management which clarifies the risk appetite and properly incorporates it into the business operations.

(3) Definition of Risk Appetite Statement

Document that covers credit risk, liquidity risk, and other risks, to clarify the attitude towards risk management and the Risk Appetite.

(4) Definition of Risk Appetite

Type and quantity of Risk that JSCC accepts, in order to realize its Corporate Philosophy and the management policy.

(5) Comprehensive Risk Management Operation

JSCC carries out comprehensive risk management operations, comprised of the following factors for business operations, in line with the Risk Appetite Framework:

- Setting Risk Appetite and validate adequacy;
- Management based on Risk Appetite:
 - Management of compliance status, based on the Risk Management Policy that covers various detailed risks;
 - Validation of various risk management systems, such as the margin system;
 - Preventive management concerning material risks, etc.

(6) Internal Structure related to Risk Management

• Board of Directors

The Board of Directors ultimately bears the responsibility for the development of the Risk Appetite Statement and the realization of comprehensive risk management.

• Risk Committee

In the course of the Board of Directors' performance of its duty related to the implementation of the Risk Appetite Statement, the committee will have discussions from professional point of view, and give advice to the Board of Directors.

• Risk Oversight Committee

The committee will carry out internal discussions and announcement related to the status of risk management, the status of the implementation of the risk management system, the development of the Risk Appetite Statement, identification of material risks, and determination of countermeasures.

- **Chief Risk Officer (CRO)**
Chief Risk Officer is independent from the Business Divisions, and reports to and provides recommendations to the Board of Directors.
- **Business Divisions**
Business Divisions develop and implement the risk management system and business plan that matches the Risk Appetite, and the countermeasures against material risks, and actively identify, evaluate and deal with risks.
- **Comprehensive Risk Management Division**
The division compiles risk management status monitoring results, and validates the adequacy of the Risk Appetite. Moreover, it compiles the status of implementation of the risk management system, and drafts the Risk Appetite Statement and material risks and countermeasures for each business year.
- **Internal Audit Division**
The division carries out audits of the Business Divisions and Comprehensive Risk Management Division from an independent position, and reports to the President and the Board of Statutory Auditors.