

Rules on Handling concerning LG Contract for Replacement Deposit



Japan Securities Clearing Corporation

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**Rules on Handling concerning LG Contract for Replacement Deposit
(In effect as of July 27, 2020)**

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(Article 1. Purpose)

These Rules set forth necessary matters pursuant to the provisions of Article 54 of the Rules on Margin for Business of Assuming Commodity Transaction Debts^{*1}.

(^{*1} hereinafter referred to as “Rules on Margin”)

(Article 2. Definition)

1 In these Rules, “LG Contract for Replacement Deposit” means the contract prescribed in Paragraph 7 of Article 103 of the Commodity Derivatives Act^{*1} to apply *mutatis mutandis* under Paragraph 7 of Article 179 of the Act.

(^{*1} Act No. 239 of 1950; hereinafter referred to as the “Act”)

2 In these Rules, “Deferral of Deposit” means a process to defer a deposit of all or a part of the Margin in the amount equivalent to the amount to be deposited with JSCC under either Item 1 a.^{*1} or Item 1 c. of Paragraph 1 of Article 179 of the Act, solely for the effective term of the LG Contract for Replacement Deposit, pursuant to the provisions of Paragraph 9 of Article 103 of the Act to apply *mutatis mutandis* under Paragraph 7 of Article 179 of the Act.

(^{*1} limited to those entrusted after a deposit of Customer Margin pursuant to the provisions of Paragraph 2 of Article 179 of the Act)

3 In these Rules, “Bank” means a Bank, etc. prescribed in Paragraph 1 of Article 44 of the Ordinance for Enforcement of Commodity Derivatives Act^{*1} to apply *mutatis mutandis* under Article 45 of the Ministerial Ordinance.

(^{*1} Ordinance of the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Economy, Trade and Industry No. 3 of 2005; hereinafter referred to as “Ministerial Ordinance”)

(Article 3. Agreement)

When a Clearing Participant or a Broker concludes an LG Contract for Replacement Deposit with a Bank, such Contract must be made by the “Agreement concerning LG Contract for Replacement Deposit (Annex 1)”^{*1}

(^{*1} hereinafter referred to as the “Agreement”).

(Article 4. Terms of Contract in case of Multiple Banks)

The Agreement must contain, in addition to the matters prescribed in the Act and the Ministerial Ordinance, the provisions to the effect that, in the case where a Clearing Participant or a Broker has concluded the LG Contracts for Replacement Deposit with multiple Banks, with respect to the amount to be deposited in response to the instruction of

JSCC^{*1}, if JSCC's Instruction Amount is smaller than the sum of the Contract Funds for each of the Banks^{*2}, JSCC's Instruction Amount related to each Bank shall be apportioned in a proportional manner according to the amount of the Contract Funds relating to each Bank^{*3}; provided, however, that, notwithstanding such provisions, JSCC may demand a deposit from any particular Bank without regard to its proportionate share.

(*¹ hereinafter referred to as "JSCC's Instruction Amount")

(*² referring to the Contract Funds set forth in Article 2 of LG Contract for Replacement Deposit)

(*³ any fraction less than whole yen amount shall be rounded off)

(Article 5. Effective Term of Contract)

An LG Contract for Replacement Deposit shall be an annual contract and its starting date shall be the 1st day of a month.

(Article 6. Submission of Application for Approval concerning Conclusion of Contract)

When a Clearing Participant or a Broker intends to conclude an LG Contract for Replacement Deposit with a Bank, it must submit an application for approval and the required document prescribed in the following Items to the competent minister by the 1st day^{*1} of the month that is immediately preceding the month in which the Business Day it intends to obtain Deferral of Deposit from JSCC belongs:

(*¹ if it falls on a Non-Business Day, it shall be the immediately preceding Business Day)

- (1) Application for Approval concerning Conclusion of LG Contracts for Replacement Deposit (Annex 2); and
- (2) Draft of the Agreement.

(Article 7. Submission of Application for Approval concerning Amendment to or Cancellation of Contract)

1 When a Clearing Participant or a Broker intends to amend the terms of, or cancels, an LG Contract for Replacement Deposit with the Bank, it must submit the required documents as listed in the following Paragraphs to the competent minister and JSCC by the 1st day^{*1} of the month that is immediately preceding the month in which the Business Day it intends to obtain Deferral of Deposit from JSCC under the amended terms or to cancel the Contract belongs.

(*¹ if such day falls on a Non-Business Day, it shall be the immediately preceding Business Day)

2 When amending any Contract terms, following documents shall be submitted:

- (1) Application for Approval concerning Amendment to LG Contract for Replacement Deposit (Annex 3); and
- (2) Draft of an amendment.

3 When canceling the Contract, following documents shall be submitted:

- (1) Application for Approval concerning Cancellation of LG Contract for Replacement Deposit (Annex 4); and
- (2) Draft of an agreement on cancellation of the Contract

4 A Broker must file the application for approval and the required documents stated in Paragraph 2 and Paragraph 3 with JSCC through its Clearing Participant*¹.

(*1 hereinafter referred to as "Brokering Clearing Participant")

5 When a Clearing Participant cancels the Contract due to a renunciation of its Commodity Transaction Clearing Qualification, it shall submit the required documents stated in Paragraph 3 without delay, notwithstanding the provisions of Paragraph 1.

(Article 8. Notification of Approval or Disapproval)

1 After receiving an application of the preceding Article, JSCC shall notify approval or disapproval of the application and other required matters to the Clearing Participant or the Broker via "Notification of Approval with regard to LG Contract for Replacement Deposit (Annex 5)" or "Notification of Disapproval with regard to LG Contract for Replacement Deposit (Annex 6)".

2 In cases where JSCC gave a notification of the preceding Paragraph to a Broker, JSCC shall provide a copy of Annex 5 or Annex 6 given to the Broker to its Brokering Clearing Participant.

3 For an amendment to the terms of, or a cancellation of, an LG Contract for Replacement Deposit, a Broker must inform its Brokering Clearing Participant of the effect that an approval from the competent minister and JSCC has been obtained.

(Article 9. Notification of Contract)

1 Upon conclusion of, conclusion of an amendment to, or conclusion of an agreement to cancel, the LG Contract for Replacement Deposit pursuant to the provisions of Article 6 and Article 7, the Clearing Participant or the Broker must file with its competent minister(s) and JSCC the documents listed in the following Paragraphs.

2 Upon conclusion of an LG Contract for Replacement Deposit, the following documents shall be submitted:

- (1) Notification Form concerning Conclusion of LG Contract for Replacement Deposit (Annex 7);

(2) A copy of the document evidencing an approval of the competent minister for the conclusion of the relevant Contract;

(3) A copy of the LG Contract for Replacement Deposit^{*1} and a certificate of seal impression of the Bank's CEO created within three months prior to the submission of the notification form^{*2}.

(^{*1} to which a certificate with the seal impression of the Bank's CEO^{*1-1} shall be attached)

(^{*1-1} or, to the competent minister, a document certifying that the copy of such certificate is a true copy of the original of such certificate)

(^{*2} to the competent minister, a copy of such certificate may be attached)

(4) Status Report on LG Contract for Replacement Deposit (Annex 10).

3 Upon conclusion of an amendment, the following documents shall be submitted:

(1) Notification of Amendment to LG Contract for Replacement Deposit (Annex 8);

(2) A copy of the document evidencing an approval of the competent minister for a conclusion of such amendment;

(3) A copy of the document evidencing an approval of JSCC for a conclusion of such amendment;

(4) A copy of the amendment related to the LG Contract for Replacement Deposit^{*1}.

(^{*1} to which a certificate with the seal impression of the Bank's CEO^{*1-1} shall be attached)

(^{*1-1} or, to the competent minister, a document certifying that the copy of such certificate is a true copy of the original of such certificate)

(5) Status Report on LG Contract for Replacement Deposit (Annex 10)

4 Upon conclusion of an agreement to cancel, following documents shall be submitted:

(1) Notification of Cancellation of LG Contract for Replacement Deposit (Annex 9);

(2) A copy of the document evidencing an approval of the competent minister for a cancellation of the relevant Contract;

(3) A copy of the document evidencing an approval of JSCC for a cancellation of the relevant Contract;

(4) A copy of the agreement to cancel the LC Contract for Replacement Deposit^{*1}

(^{*1} or, to the competent minister, a document certifying that the copy of such agreement is a true copy of the original of such agreement)

(5) Status report on LG Contract for Replacement Deposit (Annex 10).

5 Besides the documents prescribed in Paragraph 2 through Paragraph 4, a Broker must file the notification with JSCC through its Brokering Clearing Participant, attaching the document of the acknowledgment by its Brokering Clearing Participant of the Broker obtaining Deferral of Deposit of the Margin pursuant to the LG Contract for Replacement Deposit.

(Article 10. Acceptance of Notification)

1. When JSCC receives a notification pursuant to the provisions of Paragraph 2 of the preceding Article, it shall inform the Clearing Participant or the Broker of its acceptance of the notification and other necessary matters via "Confirmation Notice on LG Contract for Replacement Deposit" (Annex 11).
- 2 If JSCC receives the notification of Paragraph 5 of the preceding Article, it shall provide the Brokering Clearing Participant with a copy of Annex 11 given to the Broker in a manner prescribed in the preceding Paragraph.

(Article 11. Deadline for Notification)

Regardless of a type of contracts or agreements, the notification of Paragraph 1 of Article 9 must be submitted to JSCC by the day that is five (5) Business Days preceding the effective date of the Contract, the amendment or the cancellation.

(Article 12. Handling in case where no Notification being Submitted)

Unless a Clearing Participant or a Broker files the notification on LG Contract for Replacement Deposit pursuant to the provisions of Paragraph 1 of Article 9 with JSCC by the deadline set forth in the preceding Article, it may not obtain Deferral of Deposit of the Margin, application of the amendment to the Contract terms or cancellation of the Contract, as applicable.

(Article 13. Deposit Instruction of Deferred Amount associated with Amendment)

- 1 If an application for the amendment to the Contract pursuant to the provisions of Article 7 relates to the Contract Funds, and there will be a shortfall in the amount of the Margin for Customer account to be deposited with JSCC due to a reduction in the amount of the Margin of which the deposit has been deferred pursuant to the provisions of Paragraph 9 of Article 103 of the Act to apply *mutatis mutandis* under Paragraph 7 of Article 179 of the Act^{*1}, JSCC shall cause the Clearing Participant or the Broker to deposit an amount equal to such shortfall by the Business day JSCC designates, impose a condition that no shortfall shall occur during the period from the date of such designation to the effective date of the amendment^{*2}, and if such condition is not met, JSCC shall nullify its approval related to the relevant application, unless JSCC instructs a deposit pursuant to the provisions of Article 53 of the Rules on Margin.

(*1 hereinafter referred to as "Deferred Amount")

(*2 hereinafter referred to as "Designated Period")

2 The shortfall prescribed in the preceding Paragraph shall be calculated in respect of the Margin for Customer account for the Business Day immediately preceding each Business Day during the Designated Period, and shall be the amount that falls short in association with the reduction in the Deferred Amount.

(Article 14. Deposits Instruction of Deferred Amount associated with Cancellation of Contract)

1 If JSCC receives the application on a cancellation of the LG Contract for Replacement Deposit pursuant to the provisions of Article 7, it shall cause the Clearing Participant or the Broker to deposit an amount equal to the shortfall arising in association with such cancellation by the Business Day JSCC designates, impose a condition that no shortfall shall occur during the Designated Period, and if such condition is not met, JSCC shall nullify its approval related to the relevant application, unless JSCC instructs a deposit pursuant to the provisions of Article 53 of the Rules on Margin.

2 The provisions of Paragraph 2 of Article 13 shall apply *mutatis mutandis* to the calculation of a shortfall set forth in the preceding Paragraph. In this case, the phrase, "reduction in the Deferred Amount," in Paragraph 2 of the said Article shall be deemed to be "cancellation of the Contract."

(Article 15. Renewal of Contract)

1 If a Clearing Participant or a Broker renews the Contract along with an expiration of the term of the Contract, it must notify that effect by the 1st day^{*1} of the month that is immediately preceding the month in which the expiration date of the current Contract belongs, and must take necessary procedures pursuant to the provisions of Article 6 and Article 9.

(*1 if it falls on a Non-Business Day, it shall be the immediately preceding Business Day)

2 If no notification of a Contract renewal is filed by the day that is five (5) Business Days preceding the effective date of the renewed Contract, the Contract renewal is not considered to be made in association with the expiration, and the measures similar to those set forth in the provisions of Paragraph 2 of Article 16 shall be taken.

(Article 16. Termination of Contract)

1 If a Clearing Participant or a Broker terminates the Contract in association with an expiration of the term, it must notify JSCC of that effect by the day^{*1} that is one month prior to the expiration date of the current Contract via "Notification associated with Expiration of Term of LG Contract for Replacement Deposit" (Annex 12). In this case, a Broker must file such notification with JSCC through its Brokering Clearing Participant.

(*1 if such day falls on a Non-Business Day, it shall be the immediately preceding Business Day)

2 If a shortfall in the Margin for a Customer account arises due to a termination of the Contract, the Clearing Participant or the Broker must deposit with JSCC an amount equal to the shortfall as the Margin for Customer account during the period from the day that is five (5) Business Days preceding the expiration date through the expiration date. In this case, if the amount equal to the shortfall has not been deposited, JSCC shall give the instruction under Article 53 of the Rules on Margin to the Bank.

3 The provisions of Paragraph 2 of Article 13 shall apply *mutatis mutandis* to a calculation of the amount of shortfall under the preceding Paragraph. In this case, the phrase, "reduction in the Deferred Amount," in Paragraph 2 of the said Article shall be deemed to be "termination of the Contract."

(Article 17. Notice from Bank)

If a Clearing Participant or a Broker has concluded LG Contracts for Replacement Deposit with multiple Banks and receives the notice claiming for Deferred Amount from the Banks capped at Contract Funds, it must respond to such claim.

Reference Translation

Rules on Handling concerning LG Contract for Replacement Deposit

Supplementary Provisions

These Rules shall come into effect on July 27, 2020.