

Rules on Default Settlement Regarding Clearing Participants in Relation to JGB OTC  
Transaction Clearing Business

Chapter 1 General Provisions

(Article 1 Purpose)

The purpose of these Rules on Default Settlement Regarding Clearing Participants in relation to JGB OTC Transaction Clearing Business (hereinafter referred to as “these Rules”) is to set forth the matters necessary for the holding of the Auction for Default Settlement and the procedures for settlement of losses resulting from the Default, Etc. of a Clearing Participant in accordance with the Japanese Government Bond Over-the-Counter Transaction Clearing Business Rules (hereinafter referred to as “Business Rules”) established by Japan Securities Clearing Corporation (hereinafter referred to as “JSCC”).

(Article 2 Definitions)

The terms used in these Rules shall have the meanings as prescribed in the Business Rules unless otherwise specified in these Rules, and the terms listed in each Item below shall have the meanings defined in each such Item:

- (1) “Basket Auction Date” means the date designated by JSCC at each occasion based on the advice of JGB OTC Transaction Default Management Committee as a date on which the Basket Auction for Default Settlement is to be held.
- (2) “First Step Auction Date” means the date designated by JSCC at each occasion based on the advice of JGB OTC Transaction Default Management Committee as a date on which the First Step Auction for Default Settlement is to be held.
- (3) “Second Step Auction Date” means the date designated by JSCC at each occasion based on the advice of JGB OTC Transaction Default Management Committee as a date on which the Second Step Auction for Default Settlement is to be held.
- (4) “Successful Bidder Participant” means the Clearing Participant who has won a bid on the Subject Transaction for Auction at the Auction for Default Settlement.
- (5) “First Step Loss Compensation Financial Resources” means the First Tier JGB OTC Transaction Settlement Guaranty Reserve.
- (6) “Second Step Loss Compensation Financial Resources” means the Second Tier JGB OTC Transaction Settlement Guaranty Reserve, JGB OTC Transaction Clearing Fund deposited with JSCC by Non-Defaulting Clearing Participants (capped at the Second Tier Clearing Participant Bearing Limit), the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge.
- (7) “Second Tier Clearing Participant Bearing Limit” means the Second Tier

Bearing Limit of Clearing Participant subject to Original Transaction Proration and the Second Tier Bearing Limit of Clearing Participant subject to Clearing Fund Requirement Proration.

(Article 3 Setting Aside First Tier JGB OTC Transaction Settlement Guarantee Reserve, etc.)

1 JSCC will set aside 1.75 billion Japanese yen as the First Tier JGB OTC Transaction Settlement Guarantee Reserve.

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In the case where all or part of the First Tier JGB OTC Transaction Settlement Guarantee Reserve is used in accordance with the Business Rules, Etc., JSCC will set aside the same amount as the portion so used as First Tier JGB OTC Transaction Settlement Guarantee Reserve at each occasion. The sum total of the reserve under the provisions of this Paragraph shall not be more than 1.75 billion Japanese yen.

(Article 4 Setting Aside Second Tier JGB OTC Transaction Settlement Guarantee Reserve, etc.)

1 JSCC will set aside 1.75 billion Japanese yen as the Second Tier JGB OTC Transaction Settlement Guarantee Reserve.

2 In the case where all or part of the Second Tier JGB OTC Transaction Settlement Guarantee Reserve is used in accordance with the Business Rules, Etc., JSCC will set aside the same amount as the portion so used as Second Tier JGB OTC Transaction Settlement Guarantee Reserve at each occasion. The sum total of the reserve under the provisions of this Paragraph shall not be more than 1.75 billion Japanese Yen.

(Article 5 Principle of Individual Settlement of Default, Etc.)

Unless otherwise set forth in the Business Rules, Etc., when Default, Etc. is determined in respect of multiple Clearing Participants, the holding of the Auction for Default Settlement, the mutual discussion held in accordance with Article 80-4 of the Business Rules and the agreement reached in accordance with Article 80-4, Paragraph 2 or Close-out Netting of Unsettled Positions upon failure of such agreement, the calculation and payment of the Special Clearing Charge payable by each Clearing Participant to JSCC, the calculation and posting of the Special Clearing Charge Collateral by each Clearing Participant with JSCC, the calculation and recovery of the Loss Resulting from Default Settlement (including the application of the First Tier JGB OTC Transaction Settlement Guarantee Reserve, the Second Tier JGB OTC Transaction Settlement Guarantee Reserve, and the JGB OTC Transaction Clearing Fund for the purpose of the recovery), the adjustments required upon determination of the amount of claims of JSCC against the Defaulting Clearing Participant and other matters related to the determination of the Default, Etc. as well as the application of the relevant provisions of the Business Rules, Etc. to these

matters shall be performed and handled separately in respect of each Defaulting Clearing Participant.

## Chapter 2 Auction for Default Settlement

### Section 1 Basket Auction for Default Settlement

(Article 5-2 Basic Matters regarding Basket Auction for Default Settlement)

1 JSCC will hold the Basket Auction for Default Settlement based on the advice of the JGB OTC Transaction Default Management Committee and in accordance with the following procedures.

- (1) JSCC shall designate the Subject Transactions for Auction based on the advice of the JGB OTC Transaction Default Management Committee for each Basket.
- (2) In the Basket Auction for Default Settlement, the party to participate in the Basket Auction is to offer, within the time period set forth in Article 5-5, Paragraph 1, a Bid Repo Rate (referring to the rates which is the basis for calculating the Ending Delivery Amount paid/received between JSCC and the Successful Bidder Participants, the same applies hereinafter) and a bid Starting Buying/Selling Price (referring to the desired bid amount of Starting Delivery Amount of the Subject Transactions for Auction; the same applies hereinafter).

(Article 5-3 Position to be excluded from Position subject to Basket Auction for Default Settlement)

The obligations prescribed by JSCC as stipulated in Article 80-3, Paragraph 2, Item (1) of the Business Rules shall be those specified in each of the following items.

- (1) Starting/Rewind JGB Delivery Obligation (Basket): The obligations for which Default Determination Day is the Settlement Day, Etc.
- (2) Ending/Unwind JGB Delivery Obligation (Basket): The obligations for which immediately following day of Default Determination Day is the Settlement Day, Etc.

(Article 5-4 Notice concerning Basket Auction for Default Settlement)

In advance of the Basket Auction for Default Settlement, JSCC will notify the parties to participate in the Basket Auction for Default Settlement of the details of the Subject Transactions for Auction in respect of the Basket Auction for Default Settlement.

(Article 5-5 Holding of Basket Auction for Default Settlement)

1 JSCC will hold the Basket Auction for Default Settlement from the time specified by JSCC based on the advice of the JGB OTC Transaction Default Management Committee to 6:00 p.m. on the First Step Auction Date; provided, however, that JSCC may change the time for the Auction for Default Settlement based on the advice of the JGB OTC

Transaction Default Management Committee.

- 2 In addition to those set forth in the preceding Paragraph, the other matters necessary for the holding of the Basket Auction for Default Settlement shall be determined by JSCC at each occasion based on the advice of the JGB OTC Transaction Default Management Committee.
- 3 At the Basket Auction for Default Settlement, for each Subject Transaction for Auction, bid Starting Buying/Selling Prices for each Subject Transaction for Auction offered by the Participants in the Auction shall be added up to the Starting Delivery Amount of each Subject Transaction for Auction in the order from the highest Bid Repo Rate in the case of the Subsequent Collateral Allocation Repo Transaction for which Successful Bidder Participant is a Repo Selling Clearing Participant, and in the order from the lowest Bid Repo Rate in the case of the Subsequent Collateral Allocation Repo Transaction for which Successful Bidder Participant is a Repo Buying Clearing Participant.
- 4 In the case of preceding Paragraphs, if multiple same Bid Repo Rates exist, the Successful Bidder Participant shall be a Clearing Participant with the largest bid Starting Buying/Selling Price and if multiple same bid Starting Buying/Selling Prices exist, the Successful Bidder Participant shall be decided by lottery.

(Article 5-6 Execution of Subject Transactions for Auction at Basket Auction for Default Settlement)

- 1 JSCC will fix the successful Bid Repo Rates (referring to as the Bid Repo Rates related to the transaction to be bid; the same applies hereinafter) and the Successful Bidder Participants of the Basket Auction for Default Settlement immediately after the closing of such auction.
- 2 When JSCC has fixed the successful Bid Repo Rates and the Successful Bidder Participants of the Basket Auction for Default Settlement pursuant to the preceding Paragraph, the Subject Transactions for Auction put up for the Basket Auction for Default Settlement shall be executed between JSCC and the Successful Bidder Participants, at the time when the successful Bid Repo Rates and the Successful Bidder Participants are fixed.
- 3 When the successful Bid Repo Rate and the Successful Bidder Participants of the Basket Auction for Default Settlement are fixed pursuant to the provisions in Paragraph 1, JSCC will immediately notify the Clearing Participants which submitted a bid in the Basket Auction for Default Settlement of the bid result.
- 4 The successful Bid Repo Rates and the Successful Bidder Participants shall be fixed as set forth in Paragraph 1 only when the amount of the Loss Resulting from Default

Settlement to be incurred by JSCC as a result of the execution of the Subject Transactions for Auction does not exceed the amount of the First Step Loss Compensation Financial Resources and if the amount of the Loss Resulting from Default Settlement to be incurred by JSCC as a result of the execution of the Subject Transactions for Auction exceeds the First Step Loss Compensation Financial Resources, the Basket Auction for Default Settlement shall fail.

- 5 JSCC shall, when the Basket Auction for Default Settlement fails, hold the Basket Auction for Default Settlement on the immediately following the day on which the Basket Auction for Default Settlement fails, as specifying the Starting/Rewind JGB Delivery Obligation (Basket) for which Settlement Day, Etc. arrives on or after the day three (3) days (excluding holidays) after the day on which Basket Auction for Default Settlement fails and the Ending/Unwind JGB Delivery Obligation (Basket) corresponding to such obligation, as the Positions subject to Default Settlement.
- 6 The provisions in Article 5-2 through Paragraph 4 of this Article shall apply *mutatis mutandis* to the holding of the Basket Auction for Default Settlement prescribed in the preceding Paragraph.

## Section 2 First Step Auction for Default Settlement

### (Article 6 Parties to Participate in First Step Auction for Default Settlement)

The Clearing Participants prescribed by JSCC as set forth in Article 80-3, Paragraph 2, Item (2) of the Business Rules, shall be the Clearing Participants listed on the Clearing Participant List set forth in Article 5 of the JGB OTC Transaction Default Management Committee Rules. In this case, a Clearing Participant which is removed from the Clearing Participant List pursuant to the provisions in Article 5, Paragraph 4 of the JGB OTC Transaction Default Management Committee Rules shall be deemed as the Clearing Participant listed on the Clearing Participant List, until the currently existing Clearing Participant List becomes void.

### (Article 7 Basic Matters regarding First Step Auction for Default Settlement)

- 1 JSCC will hold the First Step Auction for Default Settlement based on the advice of the JGB OTC Transaction Default Management Committee and in accordance with the following procedures.
- (1) In principle, JSCC will, based on an advice of the JGB OTC Transaction Default Management Committee, divide the issues comprising the Positions subject to Default Settlement into several groups to create risk (as calculated in accordance with a manner prescribed by JSCC, the same applies, hereinafter) mitigating positions, each of which will constitute Subject Transaction for Auction, and hold the auction for each Subject Transaction for Auction; provided that when JSCC deems it appropriate taking into consideration the size of such Positions subject to Default Settlement or other

circumstances, JSCC may hold one auction covering all issues comprising the Positions subject to Default Settlement as a single Subject Transaction for Auction, based on an advice of the JGB OTC Transaction Default Management Committee.

- (2) In the First Step Auction for Default Settlement, the party to participate in the First Step Auction are to offer, within the time period set forth in Article 9, Paragraph 1, their bid price (referring to the settlement amount, either positive or negative (referring to the aggregate amount of funds to be paid/received between JSCC and such Successful Bidder Participant for the settlement of the Subject Transaction for Auction, the absolute value of which shall be payable by the Successful Bidder Participant to JSCC, if such amount is negative), to be paid/received between JSCC and Successful Bidder Participant upon execution of each Subject Transaction for Auction; the same applies hereinafter).

(Article 8 Notice concerning First Step Auction for Default Settlement)

- 1 In advance of the First Step Auction for Default Settlement, JSCC will notify the parties to participate in the First Step Auction for Default Settlement of the outline of the Subject Transactions for Auction in respect of the First Step Auction for Default Settlement.
- 2 The parties to participate in the First Step Auction for Default Settlement received the above notice may apply to JSCC for participation in such auction by specifying the Subject Transaction for Auction on which they bid.
- 3 JSCC will notify the details of such Subject Transaction for Auction to the parties to participate in the First Step Auction for Default Settlement which made application for participation set forth in the preceding Paragraph.
- 4 The parties to participate in the First Step Auction for Default Settlement which received the notification set forth in the preceding Paragraph must bid on the relevant Subject Transaction for Auction.

(Article 9 Holding of First Step Auction for Default Settlement)

- 1 JSCC will hold the First Step Auction for Default Settlement from 8: 30 a.m. to 9:30 a.m. on the First Step Auction Date; provided that JSCC may change the time for the Auction for Default Settlement based on the advice of the JGB OTC Transaction Default Management Committee.
- 2 In addition to those set forth in the preceding Paragraph, the matters necessary for the holding of the First Step Auction for Default Settlement shall be determined by JSCC at each occasion based on the advice of the JGB OTC Transaction Default Management Committee.

- 3 For each Subject Transactions for Auction, the lowest bid price at the First Step Auction for Default Settlement shall be the successful bid amount, and the participant in the Auction for Default Settlement whose bid amount is equal to such successful bid amount shall be the Successful Bidder Participant.
- 4 Notwithstanding the provisions of the preceding Paragraph, when a single Subject Transaction for Default Auction is split into multiple units for the purpose of the auction, the Successful Bidder Participants shall be determined in the order from the Participant submitted the lowest bid amount in respect of a unit until the Successful Bidder Participants are determined for all units.
- 5 In the case of the preceding two (2) Paragraphs, if the total sum of the number of units subject to auction related to the auction by the highest successful bid price exceeds the number of units for which Successful Bidder Participant has not been fixed, the Successful Bidder Participants shall be determined by prorating the number of units for which Successful Bidder Participant has not been decided and for the quantity which is not able to be prorated, the Successful Bidder Participant shall be decided by lottery.

(Article 10 Execution of Subject Transactions for Auction at First Step Auction for Default Settlement)

- 1 JSCC will fix the successful bid amounts and the Successful Bidder Participants of the First Step Auction for Default Settlement immediately after the end of such auction.
- 2 When JSCC has fixed the successful bid amounts and the Successful Bidder Participants of the First Step Auction for Default Settlement pursuant to the preceding Paragraph, the Subject Transactions for Auction put up for such auction shall be executed between JSCC and the Successful Bidder Participants, at the time when the successful bid amounts and the Successful Bidder Participants are fixed.
- 3 When the successful bid amounts and the Successful Bidder Participants of the First Step Auction for Default Settlement are fixed pursuant to Paragraph 1, JSCC will immediately notify the Clearing Participants submitted bids in the relevant auction of the bid result.
- 4 The successful bid amounts and the Successful Bidder Participants shall be fixed as set forth in Paragraph 1 only when the amount of the Loss Resulting from Default Settlement to be incurred by JSCC as a result of the execution of the Subject Transactions for Auction does not exceed the amount of the loss compensation financial resources related to such Subject Transactions for Default Settlement (referring to the amount obtained by prorating the First Step Loss Compensation Financial Resources (excluding the amount used for the Basket Auction for Default Settlement) according to the risk amount of each Subject Transaction for Auction).

Neither a successful bid amount nor a Successful Bidder Participant will be fixed for a portion of the Subject Transaction for Auction relating to the excess of the amount of the Loss Resulting from Default Settlement to be incurred by JSCC as a result of the execution of the Subject Transaction for Auction over the amount of the loss compensation financial resources related to such Subject Transaction for Auction.

## Section 2 Second Step Auction for Default Settlement

### (Article 11 Basic Matters regarding Second Step Auction for Default Settlement)

1 If the Basket Auction for Default Settlement fails pursuant to the provisions in Article 5-6, Paragraph 4 or JSCC does not fix the successful bid amounts and the Successful Bidder Participants in respect of all or a part of the Subject Transactions for Auction in the First Step Auction for Default Settlement pursuant to the provisions of the preceding Article, Paragraph 4, JSCC will hold the Second Step Auction for Default Settlement based on the advice of the JGB OTC Transaction Default Management Committee and in accordance with the following procedures.

- (1) JSCC will designate the Subject Transaction for Auction for each issue, specifying (i) the Security Settlement Obligation Related to Subsequent Collateral Allocation Repo Transaction, Etc. based on the Collateral Allocation to the Starting/Rewind JGB Delivery Obligation (Basket) for which Settlement Day, Etc. arrives on the immediately following day on which Basket Auction has failed and the corresponding Ending/Unwind JGB Delivery Obligation (Basket) and (ii) Security Settlement Obligation Related to Individual Transaction and the Security Settlement Obligation Related to Subsequent Collateral Allocation Repo Transaction, Etc. included in the Subject Transaction for Auction for which auction has failed at the First Step Auction, as the Subject Transaction for Auction.
- (2) In the Second Step Auction for Default Settlement, each party to participate in the Second Step Auction is to offer, within the time period set forth in Article 13, Paragraph 1, a bid price per 100 yen in face value and a bid face value.

### (Article 12 Notice concerning Second Step Auction for Default Settlement)

In advance of the Second Step Auction for Default Settlement, JSCC will notify the parties to participate in the Second Step Auction for Default Settlement of the details of the relevant Subject Transactions for Auction.

### (Article 13 Holding of Second Step Auction for Default Settlement)

1 JSCC shall hold the Second Step Auction for Default Settlement from 9:00 a.m. to 11:30 a.m. on the Second Step Auction Date; provided that JSCC may change the time for the Auction for Default Settlement based on the advice of the JGB OTC Transaction Default Management Committee.



- 2 In addition to those set forth in the preceding Paragraph, the matters necessary for the holding of the Second Step Auction for Default Settlement shall be determined by JSCC at each occasion based on the advice of the JGB OTC Transaction Default Management Committee.
- 3 At the Second Step Auction for Default Settlement, for each Subject Transaction for Auction, bid prices offered by the Participants in the Auction shall be added up to the face value of each Subject Transaction in the order from the lowest bid price per 100 yen in face value.
- 4 In the case of the preceding Paragraph, if the total amount of face value of the Subject Transactions for Auction related to the highest successful bid amount per 100 yen in face value (referring to the highest bid price per 100 yen in face value among the successful bid amounts for each Subject Transactions for Auction) exceeds the face value of the Subject Transaction for Auction for which Successful Bidder Participants has not been fixed, for the Subject Transaction for Auction of which Successful Bidder Participants has not been fixed, the Successful Bidder Participants shall be fixed by prorating the total amount of face value of the Subject Transactions for Auction related to the highest successful bid amount, if fractional amount less than the face value occurs, the Successful Bidder Participant shall be decided by lottery.

(Article 14 Execution of Subject Transactions for Auction at Second Step Auction for Default Settlement)

- 1 JSCC will fix the successful bid amounts and the Successful Bidder Participants of the Second Step Auction for Default Settlement immediately after the end of such auction.
- 2 When JSCC fixed the successful bid amounts and the Successful Bidder Participants of the Second Step Auction for Default Settlement pursuant to the preceding Paragraph, the Subject Transactions for Auction put up for the Second Step Auction for Default Settlement shall be executed between JSCC and the Successful Bidder Participants at the time of such determination.
- 3 When the successful bid amounts and the Successful Bidder Participants of the Second Step Auction for Default Settlement are fixed pursuant to Paragraph 1, JSCC will immediately notify the Clearing Participants submitted bids in the Second Step Auction for Default Settlement of the Bid Result.
- 4 Notwithstanding the provisions of the preceding three Paragraphs, in the case where the successful bid amounts and the Successful Bidder Participants of the Second Step Auction for Default Settlement are fixed, if the sum total of the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge to be contributed by any Non-Defaulting Clearing Participant exceeds the sum total of the Initial Margin and the Default Contingent Margin actually deposited with JSCC by such Clearing

Participant, the successful bid amounts and the Successful Bidder Participants of the Second Step Auction for Default Settlement shall be determined as prescribed in each Item below or a Second Step Auction for Default Settlement shall be held again.

- (1) JSCC shall notify each Non-Defaulting Clearing Participant of the provisional Bid Result immediately after the end of the Second Step Auction for Default Settlement.
- (2) JSCC shall notify the amount of the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge to be contributed by each Non-Defaulting Clearing Participant if the successful bid amounts and the Successful Bidder Participants for such Second Step Auction for Default Settlement are to be fixed, and the amount of the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral to be deposited with JSCC pursuant to the provisions of Article 30, Item (1) and Article 31, Item (1) by 2:00 p.m. on the Second Step Auction Date.
- (3) If all the Non-Defaulting Clearing Participants post with JSCC in full by 4:00 p.m. on the Second Step Auction Date the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral to be posted with JSCC, JSCC shall immediately fix the successful bid amounts and the Successful Bidder Participants for the Second Step Auction for Default Settlement. The provisions of Paragraphs 2 and 3 shall be applied *mutatis mutandis* to the case where JSCC has fixed the successful bid amounts and the Successful Bidder Participants for the Second Step Auction for Default Settlement pursuant to this Item.
- (4) In the cases other than those prescribed in the preceding Item, the Second Step Auction for Default Settlement fails and a Second Step Auction for Default Settlement shall be held again on the next day following the Second Step Auction Date in accordance with the provisions of Article 11 through this Article.

### Chapter 3 Mutual Discussion

(Article 15 Method of Mutual Discussion, etc.)

1 The mutual discussion set forth in Article 80-4, Paragraph 1 of the Business Rules shall be held for the cases set forth in each of the following Items or when JSCC considers as necessary in relation to handling of the Auction for Default Settlement or the procedures for the relevant loss.

- (1) When the Basket Auction for Default Settlement is held pursuant to the provisions in Article 5-6, Paragraph 5, the cases specified in the below A) or B):

- A) The cases where the total amount of the bid Starting Buying/Selling Prices is less than the Starting Buying/Selling Price of the Subject Transactions for Auction; or
  - B) The cases where before fixing the successful bid amounts and the Successful Bidder Participants, JSCC will estimate the Loss Resulting from Default Settlement which JSCC may incur if the Subject Transactions for Auction in relation to the relevant auction are executed and such estimated amount exceeds the First Step Loss Compensation Financial Resources.
- (2) When the Second Step Auction for Default Settlement is held, the cases specified in the below A) or B):
- A) The cases where the total amount of bid face value is less than the face value of the Subject Transactions for Auction; or
  - B) The cases where before fixing the successful bid amount and the Successful Bidder Participants, JSCC will estimate the Loss Resulting from Default Settlement which JSCC may incur if the Subject Transactions for Auction in relation to the relevant auction are executed and such estimated amount exceeds the Second Step Loss Compensation Financial Resources.
- 2 Each Non-Defaulting Clearing Participant shall authorise the Representative of Committee Member or Representative of Special Committee Member of JGB OTC Transaction Management Committee delegating such Non-Defaulting Clearing Participant or any person representing or acting as an agent for such Non-Defaulting Clearing Participant to have the discussion with JSCC pursuant to the preceding Paragraph and to enter into an agreement with JSCC in accordance with Article 80-4 of the Business Rules.
- 3 The date and time and the method of holding of the discussion and other necessary matters for the discussion required by Article 80-4 of the Business Rules shall be determined by JSCC at each occasion.
- 4 JSCC will notify all the Non-Defaulting Clearing Participants in advance of the matters determined by JSCC in connection with the holding of the discussion in accordance with the preceding Paragraph.
- 5 In case where the discussion is to commence in accordance with Article 80-4 of the Business Rules, JSCC will fix neither the successful bid amount nor the Successful Bidder Participant in respect of all Subject Transactions for Auction in the Second Step Auction for Default Settlement, notwithstanding the provisions of Article 14,

Paragraph 1.

(Article 16 Discussion Period)

The period to be prescribed by JSCC in the Subordinate Rules as set forth in Article 80-5, Paragraph 1 of the Business Rules shall continue until the second day (excluding holidays) from the Second Step Auction Date; provided that such period may be extended if agreed to by JSCC and all the Non-Defaulting Clearing Participants.

(Article 17 Close-out Netting related to Defaulting Clearing Participant and Special Rule related to Appraised Value of JGB Delivery/Return Obligation, etc. in Netting Calculation)

1 The appraised value related to Japanese government bonds Transfer/Return Obligation for the case set forth in Article 79, Paragraph 7 and Article 80, Paragraph 5 of the Business Rules, Securities Settlement Obligation and the obligation of JSCC to deliver Japanese government bonds in relation to Subject Transaction for Auction pursuant to the provisions of Article 80-7, Paragraph 2 of the Business Rules (referred to as “JGB Delivery/Return Obligation, etc.” in this Article) shall be determined in the following manner:

- (1) The appraised value related to JGB Delivery/Return Obligation when the agreement set forth in Article 80-4 of the Business Rules is reached shall be the amount obtained through the method set forth in such agreement;
- (2) The appraised value of the portion of the JGB Delivery/Return Obligation relating to the Unsettled Securities Position when the Close-out Netting of Unsettled Position set forth in Article 80-5 of the Business Rules is effected shall be the amount obtained through the method set forth in Paragraph 1, Item (2) of the following Article, and the appraised value of the portion of the JGB Delivery /Return Obligation, etc. other than those related to the Unsettled Securities Position shall be determined set forth in Article 79, Paragraphs 2, 5 and 6 and Article 80, Paragraphs 3 and 4 of the Business Rules.

(Article 18 Close-out Netting of Unsettled Positions)

1 The appraised values of the Unsettled Monetary Positions and the Unsettled Securities Positions in the Close-out Netting of Unsettled Positions set forth in Article 80-5, Paragraph 1 of the Business Rules shall be obtained in the following manner:

- (1) The appraised values of the Unsettled Monetary Positions shall be the sum total of the present values of each obligation comprising the relevant Unsettled Monetary Positions as of the date of the Close-out Netting of Unsettled Positions (hereinafter referred to as “Close-out Netting Date”) obtained by applying the discount rate prescribed by JSCC based on the Tokyo Repo Rate (reference institutions average) published by the Japan Securities Dealers Association (or, if JSCC deems it necessary, the discount rate prescribed by JSCC at each occasion);

- (2) The appraised values of the Unsettled Securities Positions (excluding the Starting/Rewind JGB Delivery Obligation (Basket) and the Ending/Unwind JGB Delivery Obligation (Basket)) shall be, in respect of each obligation comprising Unsettled Securities Positions, the sum total of the amount (fraction less than whole yen amount shall be discarded) appraised based on the price calculated by the average price (if the relevant issue is neither floating rate bearing Japanese government bonds nor Inflation-Indexed Japanese government bonds and the issue date of such issue arrives on or after three (3) days (excluding holidays) after the Calculation Day, based on the price calculated by the price calculated by the average yield on the basis of Settlement Day, ETC.) stated in the reference statistical prices for over-the-counter transactions published by the Japan Securities Dealers Association as of the date of the next day following the Close-out Netting Date added by all accrued interest (fraction less than whole yen amount shall be discarded) for the number of days up to the Close-out Netting Date (holidays are to be included when counting number of days); and
  - (3) The appraised values of the Starting/Rewind JGB Delivery Obligation (Basket) and the Ending/Unwind JGB Delivery Obligation shall be the sum total amount of the present values of the relevant obligations as of the Close-Out Netting Date obtained by applying the discount rate prescribed by JSCC based on the Tokyo Repo Rate (reference institutions average) published by the Japan Securities Dealers Association (or, if JSCC deems it necessary, the discount rate prescribed by JSCC at each occasion).
- 2 In the case of Item (2) of the preceding Paragraph, the price under the preceding Paragraph related to issues for which Reference Statistical Price is not published by Japan Securities Dealers Association as of the next day following the Close-out Netting Date shall be determined by JSCC at each occasion.
- 3 The funds equivalent to the single obligation based on Article 80-5, Paragraph 1 of the Business Rules shall be paid/received between JSCC and the Clearing Participant on the next day following the Close-out Netting Date.
- 4 The Unsettled Monetary Positions and the Unsettled Securities Positions between JSCC and a Clearing Participant shall be deemed to have been performed and ceased to exist at the time when they become a single obligation pursuant to the provisions of Article 80-5, Paragraph 1 of the Business Rules. In this case, JSCC and a Clearing Participant may perform its obligations related to the Unsettled Securities Positions by the payment of the appraised values thereof (referring to the amount obtained in accordance with the provisions of Paragraph 1, Item (2)) and shall be deemed to have selected such performance method.

- 5 In addition to those set forth in the preceding four Paragraphs, matters relating to the Close-out Netting of Unsettled Positions pursuant to Article 80-5 of the Business Rules shall be determined by JSCC at each occasion.

#### Chapter 4 Sharing of Loss by Other Clearing Participants

##### (Article 19 Initial Loss-Determination Date)

The Initial Loss-Determination Date prescribed in Article 82, Paragraph 2 of the Business Rules shall be such day in such occasion as set forth in each of the following Items:

- (1) The First Step Auction Date, where the Subject Transactions for Auction put up for the First Step Auction for Default Settlement are executed between JSCC and the Successful Bidder Participants in accordance with Article 10, Paragraph 2 (other than the case set forth in Item (2));
- (2) The Second Step Auction Date, where the Subject Transactions for Auction put up for the Second Step Auction for Default Settlement are executed between JSCC and the Successful Bidder Participants in accordance with Article 14, Paragraph 2;
- (3) The date of an agreement reached, if any, pursuant to Article 80-4, Paragraph 2 of the Business Rules or the date set forth in the agreement; or
- (4) The next day following the day on which the Close-out Netting of Unsettled Positions is conducted pursuant to the provisions of Article 80-5 of the Business Rules.

##### (Article 20 Ratio used for calculation of Aggregate Loss subject to Original Transaction Proration)

The ratio set forth in Article 2, Item (26) of the Business Rules shall be the ratio of (a) the amount of the unsettled Transactions subject to Clearing of the Defaulting Clearing Participant gave rise to the Loss Resulting from Default Settlement the other side of which are Trust Accounts to (b) the total amount (excluding cleared values related to the Rewind Monetary Payment Obligation and the Unwind Monetary Payment Obligation) of all unsettled Transactions subject to Clearing of the Defaulting Clearing Participant gave rise to the Loss Resulting from Default Settlement.

##### (Article 21 Contribution Ratio of each Clearing Participant subject to Original Transaction Proration)

The contribution ratio applicable to each Clearing Participant subject to Original Transaction Proration set forth in Article 83-2, Paragraph 1, Item (3) of the Business Rules shall be the ratio of (a) the cleared values (excluding cleared values related to

the Rewind Monetary Payment Obligation and the Unwind Monetary Payment Obligation) of the unsettled Transactions subject to Clearing of the Defaulting Clearing Participant gave rise to the Loss Resulting from Default Settlement the other side of which is the Trust Account of the relevant Clearing Participant subject to Original Transaction Proration to (b) the cleared values (excluding cleared values related to the Rewind Monetary Payment Obligation and the Unwind Monetary Payment Obligation) of all of the said Transactions Subject to Clearing of the said Defaulting Clearing Participant the other side of which are Trust Accounts.

(Article 22 Clearing Funds to be Used Later)

The amount to be prescribed by JSCC under Article 83-2, Paragraph 1, Item (5), b. and c., and Article 83-5, Paragraph 2, Items (1) and (2) of the Business Rules shall be, according the below-listed classification of the Auction for Default Settlement, the amount as set forth below:

- (1) First Step Auction for Default Settlement: The amount equal to the product of (a) Second Tier Clearing Participant Bearing Limit applicable to the Clearing Participant which made successful bid in the First Step Auction for Default Settlement and (b) the ratio of the risk amount of the Subject Transaction for Auction for which such Clearing Participant's bid was successful to the risk amount of all Subject Transactions for Auction in the First Step Auction for Default Settlement (referring to the ratio as defined in the outline of the Subject Transactions for Auction in respect of the First Step Auction for Default Settlement set forth in Article 8, Paragraph 1).
- (2) Second Step Auction for Default Settlement: The amount equal to the product of (a) Second Tier Clearing Participant Bearing Limit applicable to the Clearing Participant which made successful bid in the Second Step Auction for Default Settlement and (b) the ratio of the risk amount of the Subject Transaction for Auction for which such Clearing Participant's bid was successful to the risk amount of all Subject Transactions for Auction in the Second Step Auction for Default Settlement (referring to the ratio as defined in the details of the relevant Subject Transactions for Auction in respect of the Second Step Auction for Default Settlement set forth in Article 12).

(Article 22-2 Cutoff time for Additional Deposit of JGB OTC Transaction Clearing Fund on the Last Day of Default Settlement Period)

Additional deposit of JGB OTC Transaction Clearing Fund on the last day of Default Settlement Period as stipulated in Article 83-3, Paragraph 3 of the Business Rules shall be made by 4:30 pm on the immediately following day of the last day of Default Settlement Period.

(Article 23 Payment Method of Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge)

The Non-Defaulting Clearing Participants shall pay the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge to JSCC by the method of application of the Special Clearing Charge Collateral posted with JSCC to the payment thereof.

(Article 24 Amount of Third Tier Special Clearing Charge to be Contributed by Clearing Participant subject to Original Transaction Proration)

As to Clearing Participants subject to Original Transaction Proration, the amount of the Third Tier Special Clearing Charge to be prescribed by JSCC in the Subordinate Rules under Article 83-4 of the Business Rules shall be the amount obtained as the Aggregate Loss subject to Original Transaction Proration minus the amount specified in Item(1) and Item (2) prorated according to the contribution ratio applicable to each Clearing Participant subject to Original Transaction Proration set forth in Article 21, minus the amount specified in Item (3).

- (1) The amount recovered by the application of the First Tier JGB OTC Transaction Settlement Guarantee Reserve under the provisions of Article 83 of the Business Rules.
- (2) The amount recovered by the application of the amount of the Second Tier JGB OTC Transaction Settlement Guarantee Reserve Initial Application to be applied through the Original Transaction Proration pursuant to the provisions of Article 83-2 of the Business Rules.
- (3) The amount recovered by the application of the JGB OTC Transaction Clearing Fund deposited by the relevant Clearing Participant subject to Proration on Original Transactions pursuant to the provisions of Article 83-2 of the Business Rules.

(Article 25 Amount of Third Tier Special Clearing Charge, etc. to be Contributed by Clearing Participants subject to Clearing Fund Requirement Proration)

1 As to the Clearing Participants subject to Clearing Fund Requirement Proration, the amount of the Third Tier Special Clearing Charge to be prescribed by JSCC in the Subordinate Rules under Article 83-4 of the Business Rules shall be, according to the below listed cases, as set forth below:

- (1) In the case where the amount of the Aggregate Loss subject to Clearing Fund Requirement Proration remaining after deducting the JGB OTC Transaction Clearing Fund deposited with JSCC by the Clearing Participants subject to Clearing Fund Requirement Proration under Article 83-2, Items (4) and (5) and the amount recovered by the application of the Second Tier JGB OTC Transaction Settlement Guarantee Reserve is less than the total amount of the Required JGB OTC Transaction Clearing Fund Amount in respect of each



Clearing Participant subject to Clearing Fund Requirement Proration on the day (or, if such day falls on a holiday, the preceding day that is not a holiday; the same applies hereinafter) immediately preceding the start date of the Default Settlement Period in which the Default Determination Date in respect of the Defaulting Clearing Participant belongs (if each such Clearing Participant contributes the Third Tier Special Clearing Charge in respect of any other Default, etc. determined in the same Default Settlement Period by no later than the Auction for Default Settlement in respect of such Defaulting Clearing Participant, the said total amount of the Required JGB OTC Transaction Clearing Fund Amount remaining after deduction of the amount so contributed; hereinafter referred to as "Third Tier Special Clearing Charge Limit" in this Paragraph):

The amounts set forth in a. through c. below in the order from a. to c.:

a. The amount of the Third Tier Special Clearing Charge to be contributed by the Participants Bearing Third Tier Special Clearing Charge which had applied, but failed to participate in the First Step Auction for Default Settlement related to the relevant Defaulting Clearing Participant or other First Step Auction for Default Settlement conducted during the Default Settlement Period in which the Default Determination Date related to the relevant Defaulting Clearing Participant belongs (only those conducted before the Auction for Default Settlement related to the relevant Defaulting Clearing Participant) (referred to as "Subject Clearing Participant" in this a.): The amount obtained by prorating the Aggregate Loss subject to Clearing Fund Requirement Proration according to the Third Tier Special Clearing Charge Limit applicable to the relevant Clearing Participant (or, if the amount of such Loss Resulting from Default Settlement is equal to or more than the aggregate amount of the Third Tier Special Clearing Charge Limit of the Subject Clearing Participant, the amount equal to the Third Tier Special Clearing Charge Limit applicable to the relevant Subject Clearing Participant).

b. The amount of the Third Tier Special Clearing Charge to be contributed by each Participant Bearing Third Tier Special Clearing Charge (other than those fall on a. above): The amount obtained by prorating the amount of the Aggregate Loss subject to Clearing Fund Requirement Proration remaining after deducting the aggregate amount set forth in a. above according to the amount of the Third Tier Special Clearing Charge Limit applicable to the relevant Participant Bearing Third Tier Clearing Charge, and subtracting therefrom the amount to be used later (or, if such remaining amount is equal to or more than the aggregate amount of the Third Tier Special Clearing Charge Limit of the relevant Participant Bearing Third Tier Special Clearing Charge, the amount equal to the Third Tier Special Clearing Charge Limit applicable to the relevant Participant Bearing Third Tier Special Clearing Charge).

c. The amount of the Third Tier Special Clearing Charge to be contributed by the Participant Bearing Third Tier Special Clearing Charge whose bid on the Subject Transactions for Auction in the Auction for Default Settlement related to the relevant Defaulting Clearing Participant was successful: The amount obtained by prorating the amount of the Aggregate Loss subject to Clearing Fund Requirement Proration remaining after deducting the sum total of the amounts set forth in a. and b. above according to the amount to be used later applicable to the relevant Participant Bearing Third Tier Special Clearing Charge.

(2) In any case other than Item (1): The Third Tier Special Clearing Charge Limit in relation to each Participant Bearing Third Tier Special Clearing Charge as of the Default Determination Date.

2 The amount of to be used later set forth in Item (1) b. and c. of the preceding Paragraph shall be the sum total of the amounts set forth in each Item of Article 22.

(Article 26 Allocation Method of Unapplied Amount of Second Tier Bearing Limit of Clearing Participant subject to Original Transaction Proration)

The manner to be prescribed by JSCC under Article 83-5, Paragraph 2, Item (1) of the Business Rules shall be the method in which the amount of loss to be recovered will be allocated to the Participant whose percentage of the unapplied portion of Second Tier Bearing Limit of the Clearing Participant subject to Original Transaction Proration (referring to the ratio of unused amount for the relevant Clearing Participant subject to Original Transaction Proration (after deduction of the amount set forth in Article 22, Item (2)) to the Second Tier Bearing Limit of the Clearing Participant subject to Original Transaction Proration applicable to such Clearing Participant (after deduction of the amount set forth in Article 22, Item (2)) is the largest until such percentage becomes equal to the second largest percentage of the unapplied portion of the Second Tier Bearing Limit of the Clearing Participant subject to Original Transaction Proration, and when percentage of such unapplied portion of such two Clearing Participants becomes even, then the amount of loss to be recovered will be allocated to the said two Clearing Participants until the percentage of the unapplied portion becomes equal to the third largest percentage, and so forth. In this case, if the remaining amount of the JGB OTC Transaction Clearing Fund to be applied in respect of a Clearing Participant becomes zero, no further allocation of loss to such Participant will be made.

(Article 27 Amount of Third Tier Special Clearing Charge (Additional Portion) to be Contributed by Clearing Participants subject to Original Transaction Proration)

As to Clearing Participants subject to Original Transaction Proration, the amount of the Third Tier Special Clearing Charge (Additional Portion) to be prescribed by JSCC under Article 83-6 of the Business Rules shall be, in the order set forth below, the amount set forth below:

- (1) Amount of Third Tier Special Clearing Charge (Additional Portion) to be contributed by Clearing Participants subject to Original Transaction Proration: The amount of Loss Resulting from Default Settlement remaining after deducting the amount applied pursuant to the provisions of Articles 83, 83-2, 83-4 and 83-5 of the Business Rules allocated according to the unapplied amount (the amount remaining after deduction of the amount set forth in Article 22, Item (2)) of the relevant Clearing Participant (to be capped at the unapplied amount of the relevant Clearing Participant (the amount remaining after deduction of the amount set forth in Article 22, Item (2)));
- (2) Amount of Third Tier Special Clearing Charge (Additional Portion) to be contributed by Clearing Participants subject to Original Transaction Proration which won the bid on the Subject Transactions for Auction in the Second Step Auction for Default Settlement related to the relevant Defaulting Clearing Participant: The amount of Loss Resulting from Default Settlement remaining after deduction of the amount applied pursuant to Articles 83, 83-2, 83-4 and 83-5 of the Business Rules and the amount of the Third Tier Special Clearing Charge (Additional Portion) set forth in the preceding Item allocated according to the amount set forth in Article 22, Item (2) in respect of the relevant Clearing Participant (to be capped at the amount set forth in Article 22, Item (2)).

(Article 28 Scope of Variation Margin, etc.)

The Variation Margin, etc. set forth in Article 83-7, Paragraph 1 of the Business Rules shall be as set forth in following Items and the amount set forth in Item (2) shall apply to the Clearing Participant delivering the Japanese government bonds to JSCC:

- (1) The funds to be paid/received pursuant to the provisions of Articles 49, 50, 50-9, 50-10, 52, 53, 54, 65, 66 and 67 of the Business Rules;
- (2) The amount equal to the change in the mark-to-market values of the Japanese government bonds from the date of payment to the Initial Loss-Determination Date in the case where the mark-to-market values of the securities settlement obligation to the Clearing Participant delivering the Japanese government bonds was paid by JSCC from the funds obtained through Standard Repo Transactions to which Clearing Participants are parties executed pursuant to the provisions of Article 74 of the Business Rules.

(Article 29 Amount of Fourth Tier Special Clearing Charge, etc.)

The amount of the Fourth Tier Special Clearing Charge to be prescribed by JSCC in the Subordinate Rules as set forth in Article 83-7, Paragraph 2 of the Business Rules shall be the amount set forth in each of the following Items according to the classification of the Participants Bearing Fourth Tier Special Clearing Charge (as

defined in Article 83-7, Paragraph 1; the same applies hereinafter):

- (1) In the case of each Participant Bearing Fourth Tier Special Clearing Charge (who has not been determined by JSCC to be in the Default, Etc. after the Default Determination Date of the Defaulting Clearing Participant in respect of whom the Fourth Tier Special Clearing Charge is calculated): The amount obtained by prorating the amount of the Loss Resulting from Default Settlement after the recovery of loss pursuant to Articles 83-6 of the Business Rules (after the deduction of the amount of the Fourth Tier Special Clearing Charge Collateral deposited with JSCC by the Participant Bearing Fourth Tier Special Clearing Charge determined by JSCC to be in the Default, Etc. after the Default Determination Date) according to the amount equal to the gain in relation to such Participant Bearing Fourth Tier Special Clearing Charge; and
- (2) In the case of the Participant Bearing Fourth Tier Special Clearing Charge determined to be in the Default, Etc. after the Default Determination Date of the Defaulting Clearing Participant in respect of whom the Fourth Tier Special Clearing Charge is calculated: The amount of the Fourth Tier Special Clearing Charge Collateral posted with JSCC by such Participant Bearing Fourth Tier Special Clearing Charge.

#### Chapter 5 Special Clearing Charge Collateral

##### (Article 30 Obligation to Post Third Tier Special Clearing Charge Collateral)

In the case where any Clearing Participant is determined to be in Default, Etc., each of the other Clearing Participants are required to post with JSCC, respectively, the amount set forth in the following Items as the Third Tier Special Clearing Charge Collateral (provided, however, the accumulated amount to be deposited with JSCC by each Clearing Participant as the Third Tier Special Clearing Charge Collateral in respect of the same Default Settlement Period shall not exceed the amount equivalent to the Required JGB OTC Transaction Clearing Fund Amount of such Clearing Participant on the day immediately preceding the start date of the Default Settlement Period) according to the cases set forth in the following Items by the date and time set forth in the relevant Items.

- (1) In the case of Article 14, Paragraph 4, where the amount notified by JSCC to each Clearing Participant, pursuant to the provisions of Article 14, Paragraph 4, Item (2), as the Third Tier Special Clearing Charge to be contributed by such Clearing Participant exceeds the sum total of Initial Margin and Default Contingent Margin actually deposited with JSCC by such Clearing Participant:
  - a. Date and time: 4:00 p.m. on the Second Step Auction Date with respect to which such notice was given
  - b. Amount: Amount equal to such excess

- (2) In the case of Article 14, Paragraph 4, where the amount notified by JSCC to each Clearing Participant, pursuant to the provisions of Article 14, Paragraph 4, Item (2), as the Third Tier Special Clearing Charge to be contributed by each such Clearing Participant exceeds the total amount of the Third Tier Special Clearing Charge Collateral actually posted with JSCC by such Clearing Participant:
  - a. Date and time: 11:00 a.m. on the next day following the Second Step Auction Date with respect to which such notice was given
  - b. Amount: Amount equal to such excess

(Article 31 Obligation to Post Fourth Tier Special Clearing Charge Collateral)

In the case where any Clearing Participant is determined to be in Default, Etc., each of the other Clearing Participants are required to post with JSCC, respectively, the amount of money set forth in the following Items as the Fourth Tier Special Clearing Charge Collateral according to the cases set forth in the following Items by the date and time set forth in the relevant Items.

- (1) In the case of Article 14, Paragraph 4, where the sum of the amounts notified by JSCC to each Clearing Participant, pursuant to the provisions of Article 14, Paragraph 4, Item (2), as the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge to be contributed by such Clearing Participant exceeds the sum total of Initial Margin and Default Contingent Margin actually deposited with JSCC by such Clearing Participant:
  - a. Date and time: 4:00 p.m. on the Second Step Auction Date with respect to which such notice was given
  - b. Amount: Amount equal to such excess
- (2) In the case of Article 14, Paragraph 4, where the sum of the amounts notified by JSCC to each Clearing Participant, pursuant to the provisions of Article 14, Paragraph 4, Item (2), as the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge to be contributed by each such Clearing Participant exceeds the total amount of Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral actually posted with JSCC by such Clearing Participant:
  - a. Date and time: 11:00 a.m. on the next day following the Second Step Auction Date with respect to which such notice was given
  - b. Amount: Amount equal to such excess

(Article 32 Application and Return of Special Clearing Charge Collateral)

On the day immediately following the Initial Loss-Determination Date for the Defaulting Clearing Participant, JSCC will apply the Third Tier Special Clearing Charge Collateral posted with JSCC by each Clearing Participant in accordance with Article 30 to pay the obligations related to the Third Tier Special Clearing Charge payable by the Clearing Participant to JSCC and also apply the Fourth Tier Special

Clearing Charge Collateral posted with JSCC by the Clearing Participant in accordance with the preceding Article to pay the obligations related to the Fourth Tier Special Clearing Charge payable by the Clearing Participant to JSCC, respectively. The amount remaining, if any, after the application shall be returned to the Clearing Participant promptly after the application.

(Article 33 Required Amount of Default Contingent Margin)

1 The Required Amount of Default Contingent Margin of each Clearing Participant set forth in Article 83-9 of the Business Rules shall be an amount calculated pursuant to each Item below on each day (other than holiday; the same applies in this Article) during a Default Settlement Period.

(1) On each day during a Default Settlement Period, an amount equivalent to the Required JGB OTC Transaction Clearing Fund Amount (hereinafter referred to as "Amount Equivalent to Required JGB OTC Transaction Clearing Fund Amount") shall be calculated in accordance with the Appendix "Calculation of Required JGB OTC Transaction Clearing Fund Amount" to the Rules on Required JGB OTC Transaction Clearing Fund Amount. In this case, the "First Required Margin Amount of each Clearing Participant" set forth in the Paragraph 2 of Appendix shall be deemed to be replaced with "First Required Margin Amount of each Non-Defaulting Clearing Participant".

(2) An amount to serve as a basis for calculation of Required Amount of Default Contingent Margin (hereinafter referred to as "Calculation Base for Required Amount of Default Contingent Margin") shall be calculated pursuant to a. and b. below in accordance with the classifications set forth in a. and b. below:

- a. On the day on which the Default Settlement Period commences: if the Amount Equivalent to Required JGB OTC Transaction Clearing Fund Amount calculated on such day is less than the Required JGB OTC Transaction Clearing Fund Amount on the previous day, the Required JGB OTC Transaction Clearing Fund Amount on the previous day shall be the Calculation Base for Required Amount of Default Contingent Margin on such day, and if the Amount Equivalent to Required JGB OTC Transaction Clearing Fund Amount calculated on such day is not less than the Required JGB OTC Transaction Clearing Fund Amount on the previous day, the Amount Equivalent to Required JGB OTC Transaction Clearing Fund Amount calculated on such day shall be the Calculation Base for Required Amount of Default Contingent Margin on such day.
- b. On the day other than the day on which the Default Settlement Period commences: if the Amount Equivalent to Required JGB OTC Transaction Clearing Fund Amount calculated on such day is less than the Calculation Base for Required Amount of Default Contingent Margin on the previous day, the Calculation Base for Required Amount of Default Contingent Margin on the previous day shall be the Calculation Base for Required Amount of Default Contingent Margin on such day, and if the Amount Equivalent to Required JGB OTC Transaction Clearing Fund Amount calculated on such

day is not less than the Calculation Base for Required Amount of Default Contingent Margin on the previous day, the Amount Equivalent to Required JGB OTC Transaction Clearing Fund Amount calculated on such day shall be the Calculation Base for Required Amount of Default Contingent Margin on such day. In this case, the calculation of the Calculation Base for Required Amount of Default Contingent Margin shall be made successively from the next day following the day on which the Default Settlement Period commences.

- (3) The Required Amount of Default Contingent Margin shall equal to the Calculation Base for Required Amount of Default Contingent Margin on such day less the Required JGB OTC Transaction Clearing Fund Amount on the day immediately preceding the day on which the Default Settlement Period commences.

(Article 34 Payment of Special Clearing Charge upon Final Determination of Loss)

- 1 In accordance with Article 83-11, Paragraph 1 of the Business Rules, JSCC may withdraw certain amount out of the JGB OTC Transaction Clearing Fund deposited with JSCC by each Clearing Participant or, instead, request payment of such amount from the Clearing Participant.
- 2 Notwithstanding Article 24, each Clearing Participant shall, in the case where it is supposed to pay the Special Clearing Charge to JSCC pursuant to Article 83-11, Paragraph 1 of the Business Rules, pay the Special Clearing Charge to JSCC by such method as prescribed by JSCC at each occasion.

#### Chapter 6 Distribution of Collected Amount

(Article 35 Clearing Participants Eligible to Receive Distribution of Collected Amount)

The Clearing Participants to be prescribed by JSCC in the Subordinate Rules as set forth in Article 84, Paragraph 1 of the Business Rules shall be the Clearing Participants listed below.

- (1) The Clearing Participants who have paid their respective Fourth Tier Special Clearing Charges to JSCC;
- (2) The Clearing Participants who have paid their respective Third Tier Special Clearing Charges to JSCC;
- (3) The Clearing Participants who have had their respective JGB OTC Transaction Clearing Fund drawn down pursuant to the provisions of Article 83-2 or 83-5 of the Business Rules (or paid to JSCC the amount otherwise to have been drawn down pursuant to Paragraph 1 of the preceding Article) with the amount thus drawn down or paid, as the case may be, applied to recover the losses incurred by JSCC due to the Loss Resulting from Default

Settlement, or the Default, Etc. of one or more Clearing Participants; and

- (4) The Clearing Participants who have incurred loss from reconstruction of the Unsettled Position when the Close-out Netting of Unsettled Positions was conducted pursuant to Article 80-5, Paragraph 1 of the Business Rules.

(Article 36 Distribution Procedure)

1 In each case set forth in each Item of Article 84, Paragraph 1 of the Business Rules, JSCC will distribute the amount set forth in each such Item, net of the expenses incurred for collection, etc. thereof, to the relevant Clearing Participant in the order of the following Items in proportion to such amount applicable to each Clearing Participant up to the amount set forth in each of the following Items.

- (1) To the Clearing Participants set forth in Item (1) of the preceding Article in proportion to the amount of the Fourth Tier Special Clearing Charge paid by them, respectively, to JSCC;
- (2) To the Clearing Participants set forth in Item (2) of the preceding Article in proportion to the amount of the Third Tier Special Clearing Charge paid by them, respectively, to JSCC;
- (3) To the Clearing Participants set forth in Item (3) of the preceding Article in proportion to the amount of the JGB OTC Transaction Clearing Fund applied to the recovery of the loss incurred by JSCC due to the Loss Resulting from Default Settlement or the Default, Etc. of any Clearing Participant; and
- (4) To the Clearing Participant set forth in Item (4) of the preceding Article in proportion to the amount of the loss set forth therein.

2 In the case where JSCC deems it necessary for ensuring appropriate implementation of the distribution to be made by JSCC pursuant to the preceding Paragraph to the Clearing Participants set forth in Item (4) of the preceding Paragraph, JSCC may request the relevant Clearing Participants to submit the evidence of their respective losses falling under Item (4) of the preceding Paragraph and other necessary information.

3 The amount of the loss set forth in Paragraph 1, Item (4) will be determined by JSCC based on the advice of the JGB OTC Transaction Default Management Committee and with reference to the evidence and information submitted by the Clearing Participants pursuant to the preceding Paragraph.

4 JSCC will pay the distribution amount to each Clearing Participant promptly after the determination of such amount pursuant to Paragraph 1.



## (Article 37 Procedure in Absence of Participant Eligible to Receive Collected Amount)

In the case where there is no Clearing Participant eligible to receive the amount to be distributed pursuant to each Item in Article 84, Paragraph 1 of the Business Rules, JSCC will dispose of the remaining amount, net of the expenses incurred by JSCC for the collection, etc., in the order of, and in such manner as set forth in, the following Items.

- (1) JSCC will reserve and accumulate the remaining amount as the Second Tier JGB OTC Transaction Settlement Guarantee Reserve up to the amount set aside by JSCC as the Second Tier JGB OTC Transaction Settlement Guarantee Reserve pursuant to the provisions of Paragraph 2 of Article 4 in respect of the use of the funds related to the relevant Default Settlement Period, in which case, the reserve and accumulation of the Second Tier JGB OTC Transaction Settlement Guarantee Reserve pursuant to the provisions of Paragraph 2 of Article 4 shall not be deemed to have been performed;
- (2) JSCC will reserve and accumulate the amount remaining after the accumulation pursuant to the immediately preceding Item as the Second Tier JGB OTC Transaction Settlement Guarantee Reserve until the balance of the Second Tier JGB OTC Transaction Settlement Guarantee Reserve reaches 1.75 billion Japanese Yen;
- (3) JSCC will reserve and accumulate the amount remaining after the accumulation pursuant to Items (1) and (2) as the First Tier JGB OTC Transaction Settlement Guarantee Reserve up to the amount set aside by JSCC as the First Tier JGB OTC Transaction Settlement Guarantee Reserve pursuant to the provisions of Paragraph 2 of Article 3 in respect of the use of the funds related to the relevant Default Settlement Period, in which case, the reserve and accumulation of the First Tier JGB OTC Transaction Settlement Guarantee Reserve pursuant to the provisions of Paragraph 2 of Article 3 shall not be deemed to have been performed;
- (4) JSCC will reserve and accumulate the amounts remaining after the accumulation pursuant to Items (1), (2) and (3) as the First Tier JGB OTC Transaction Settlement Guarantee Reserve.

## Chapter 7 Miscellaneous Provisions

## (Article 38 Special Rule for Clearing Participant Which Has Several Netting Accounts)

When applying the provisions listed in the left column of the following table to a Clearing Participant which has several Netting Accounts, the terms set forth in the middle column of the said table shall be replaced with the terms set forth in the right column of the said

table:

Article 14, Paragraph 4, Item (2)	to be contributed by	to be contributed for each Netting Account by
	to be deposited with JSCC	to be deposited with JSCC for each Netting Account
Article 21	contribution ratio	contribution ratio for each Netting Account
	the Trust Account of the relevant Clearing Participant subject to Original Transaction Proration	the relevant Trust Account of the relevant Clearing Participant subject to Original Transaction Proration
Article 22	Second Tier Clearing Participant Bearing Limit	Second Tier Clearing Participant Bearing Limit for each Netting Account
Article 22-2	JGB OTC Transaction Clearing Fund	JGB OTC Transaction Clearing Fund for each Netting Account
Article 24	to be prescribed by JSCC	to be prescribed by JSCC for each Netting Account
	contribution ratio	contribution ratio for each Netting Account
	deposited	deposited for each Netting Account
Article 25	to be prescribed by JSCC in the Subordinate Rules	to be prescribed by JSCC in the Subordinate Rules for each Netting Account
	on the day (or, if such day falls on a holiday, the following day that is not a holiday; the same applies hereinafter)	for each Netting Account on the day (or, if such day falls on a holiday, the following day that is not a holiday; the same applies hereinafter)
	in respect of any other	for each Netting Account in respect of

	Default, Etc.	any other Default, Etc.
	Third Tier Special Clearing Charge Limit	Third Tier Special Clearing Charge Limit for each Netting Account
	The amount of the Third Tier Special Clearing Charge to be contributed	The amount of the Third Tier Special Clearing Charge for each Netting Account to be contributed
Article 26	The manner to be prescribed by JSCC under Article 85-5, Paragraph 2, Item (1) of the Business Rules shall be	The manner to be prescribed by JSCC under Article 85-5, Paragraph 2, Item (1) of the Business Rules shall be, for each Netting Account,
	in respect of a Clearing Participant	in respect of the relevant Netting account of a Clearing Participant
Article 27	to be prescribed by JSCC	to be prescribed by JSCC for each Netting Account
	Amount of Third Tier Special Clearing Charge (Additional Portion) to be contributed	Amount of Third Tier Special Clearing Charge (Additional Portion) for each Netting Account to be contributed
	set forth in the preceding Item	for each Netting Account set forth in the preceding Item
	set forth in Article 22, Item (2)	for each Netting Account set forth in Article 22, Item (2)
Article 28	The Variation Margin, etc. set forth in Article 83-7, Paragraph 1 of the Business Rules shall be	The Variation Margin, etc. for each Netting Account set forth in Article 83-7, Paragraph 1 of the Business Rules shall be, for each Netting Account,
Article 29	to be prescribed by JSCC	to be prescribed by JSCC for each Netting Account
	each of following Items	each of following Items for each Netting Account

	the amount equal to the gain	the amount equal to the gain for each Netting Account
	deposited	deposited for each Netting Account
Article 30	each of the other Clearing Participants are required	each of the other Clearing Participants are required, for each Netting Account,
	by each Clearing Participant	by each Clearing Participant for each Netting Account
	Required JGB OTC Transaction Clearing Fund Amount	Required JGB OTC Transaction Clearing Fund Amount for each Netting Account
	to be contributed	to be contributed for each Netting Account
	actually deposited with JSCC	for each Netting Account actually deposited with JSCC
Article 31	each of the other Clearing Participants are required	each of the other Clearing Participants are required, for each Netting Account,
	to be contributed	to be contributed for each Netting Account
	actually deposited with JSCC	for each Netting Account actually deposited with JSCC
Article 33	Required Amount of Default Contingent Margin	Required Amount of Default Contingent Margin for each Netting Account
	Required JGB OTC Transaction Clearing Fund Amount	Required JGB OTC Transaction Clearing Fund Amount for each Netting Account

## Supplementary Provision

- 1 These Rules shall come into force as of October 14, 2014.
- 2 Notwithstanding the provisions of the immediately preceding paragraph, when, due to an unavoidable reason, such as trouble in JSCC's system operation, JSCC deems that it is not appropriate to apply these Rules, then these Rules shall come into effect on the

date on or after October 14, 2014 designated by JSCC. In such case, matters necessary upon enforcement of these Rules shall be prescribed by JSCC at each time.

#### Supplementary Provision

These Amendments shall come into force as of October 3, 2016.

#### Supplementary Provisions

1. These revised Rules shall come into effect on May 1, 2018.
2. Notwithstanding the provisions of the immediately preceding paragraph, when, due to an unavoidable reason, such as trouble in JSCC's system operation, JSCC deems that it is not appropriate to apply these revised Rules, then These revised Rules shall come into effect on the date on or after May 1, 2018 designated by JSCC. In such case, matters necessary upon enforcement of these revised Rules shall be prescribed by JSCC at each time.

#### Supplementary Provision

These Amendments shall come into force as of June 18, 2018.

#### Supplementary Provisions

1. These revised Rules shall come into effect on December 18, 2023.
2. Notwithstanding the provisions of the immediately preceding paragraph, when, due to an unavoidable reason, such as trouble in JSCC's system operation, JSCC deems that it is not appropriate to apply these revised Rules, then These revised Rules shall come into effect on the date on or after December 18, 2023 designated by JSCC. In such case, matters necessary upon enforcement of these revised Rules shall be prescribed by JSCC at each time.