

Handling of the Collateral Allocation in relation to
Subsequent Collateral Allocation Repo Transaction, Etc.

May 1, 2018

Amended on January 11, 2022

Amended on February 14, 2024

Amended on April 1, 2024

Japan Securities Clearing Corporation

Collateral Allocation stipulated in Article 50-4 of Japanese Government Bond Over-the-Counter Transaction Clearing Business Rules (hereinafter referred to as the “Business Rules”) and Article 12-2 of Handling Procedures of Japanese Government Bond Over-the-Counter Transaction Clearing Business Rules (hereinafter referred to as the “Handling Procedures”) shall be executed at time as specified in Paragraph 1, for the position subject to allocation as stipulated in the said Paragraph, for the matching of a delivering Clearing Participants and a receiving Clearing Participants as stipulated in Paragraph 2, for issues to be allocated and the allocable quantity as stipulated in Paragraph 3, in a manner as stipulated in Paragraph 4. In this case, the order for the collateral allocation shall be stipulated in Paragraph 5.

1. Execution Time of Collateral Allocation and Position subject to Allocation

Collateral Allocation shall be executed three times a day on daily basis (excluding holidays) and the execution time and obligations subject to the allocation for each allocation (hereinafter referred to as the “Position subject to Allocation”) shall be stipulated as follows:

Allocation Timing	Execution Time	Position subject to Allocation
First	7:00 a.m.	· Positions after the Basket Netting executed at time in the left column as stated below. A) Starting/Rewind JGB Delivery Obligation (Basket) for which Settlement Day, Etc. is the day of the Basket Netting. B) Ending/Unwind JGB Delivery Obligation (Basket) for which Settlement Day, Etc. is the immediately following day (If such day falls on a holiday, preceding day which is not a holiday; the same applies, hereinafter) of the relevant day
Second	11:00 a.m.	· Ditto*

Third	2:00 p.m.	· Ditto*
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* Including the Position subject to Allocation remained as a result of the preceding Collateral Allocation.

2. Matching of delivering Clearing Participants and receiving Clearing Participants

The designation of matching of delivering Clearing Participant of Japanese government bonds and receiving Clearing Participant of Japanese government bond so that the both amounts become same as stipulated in Article 12-2, Paragraph 1 of the Handling Procedures, shall be as follows.

(1) First Collateral Allocation

A) A delivering Clearing Participants and a receiving Clearing Participants matched for the Collateral Allocation executed on the preceding day (If such day falls on a holiday, preceding day which is not a holiday; the same applies, hereinafter) of the day on which the Collateral Allocation is executed (hereinafter referred to as the "Allocation Day"), shall be matched preferentially for the first Collateral Allocation on the Allocation Day (hereinafter referred to as the "Preferential Matching").

B) In relation to the remained Position subject to Allocation, as a result of the Preferential Matching as stipulated in A) above, the matching of the delivering Clearing Participant having the remained Position subject to Allocation and the receiving Clearing Participant (hereinafter referred to as the "Random Matching") shall be set in order from delivering Clearing Participant having larger remained Position subject to Allocation.

In this case, order of such receiving Clearing Participant to be matched with the delivering Clearing Participant shall be determined by JSCC randomly.

C) In cases as stipulated in A) and B) above, if amount of the Position subject to Allocation by a delivering Clearing Participant differs from the amount of the Position subject to Allocation by a receiving Clearing Participant, such matching shall be executed with the smaller amount so that amount of the Position subject to Allocation by a delivering Clearing Participant and the amount of the Position subject to Allocation by a receiving Clearing Participant become same amount.

(2) Second and Third Collateral Allocation

Random Matching shall be designated. In such case, if amount of the Position subject to Allocation by a delivering Clearing Participant differs from the amount of the Position subject to Allocation by a receiving Clearing Participant, such matching shall be executed with the

smaller amount so that amount of the Position subject to Allocation by a delivering Clearing Participant and the amount of the Position subject to Allocation by a receiving Clearing Participant become same amount.

3. Issues to be Allocated and Allocable Quantity

Issues and quantity of Japanese government bonds to be allocated for each matching of a delivering Clearing Participants and a receiving Clearing Participants as stipulated in Article 12-2, Paragraph 1 of the Handling Procedures shall be determined from the issues (hereinafter referred to as the “Issues to be Allocated”) and quantity (hereinafter referred to as the “Allocable Quantity”).as stipulated in the following table.

Allocation Timing	Issues to be Allocated	Allocable Quantity
First	<ul style="list-style-type: none"> Issues stated in the latest notice among notices stipulated in Article 50-3 of the Business Rules (hereinafter referred to as the “Allocable Balance Notice”) given by a delivering Clearing Participant between 2:00 p.m. to 9:00 p.m. on the immediately preceding day of Allocation Day, and issues which such delivering Clearing Participant is scheduled to receive in relation to Subsequent Collateral Allocation Repo Transaction, Etc. on the Allocation Day^{*1·*3} 	<ul style="list-style-type: none"> For each of Issues to be Allocated, the smaller of quantity specified in either A) or B): <ul style="list-style-type: none"> A) Quantity stated in the latest Allocable Balance Notice; or B) Quantity which such delivering Clearing Participant is scheduled to receive on the Allocation Day in relation to the Subsequent Collateral Allocation Repo Transaction, Etc. ^{*2}
Second	<ul style="list-style-type: none"> Issues stated in the latest Allocable Balance Notice among Allocable Balance Notices given by a delivering Clearing Participant from 7:00 a.m. to 11:00a.m. on Allocation Day ^{*3·*4} 	<ul style="list-style-type: none"> For each of issues to be Allocated, quantity stated in the latest Allocable Balance Notice.
Third	<ul style="list-style-type: none"> Issues stated in the latest Allocable Balance Notice among Allocable Balance Notices given by a delivering Clearing Participant from 11:00 a.m. to 	<ul style="list-style-type: none"> For each of Issues to be Allocated, quantity stated in the latest Allocable Balance Notice.

	2:00 p.m. on Allocation Day ^{*3,*4}	
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- *1 “Issues which such delivering Clearing Participant is scheduled to receive in relation to Subsequent Collateral Allocation Repo Transaction, Etc. on the Allocation Day” means, with respect to Subsequent Collateral Allocation Repo Transaction, Etc. for which Allocation Day is the Ending Transaction Delivery Day or the Unwind Settlement Day, the issues for which quantity allocated to the Starting/Rewind JGB Delivery Obligation (Basket) owed to JSCC by such delivering Clearing Participant exceeds the quantity allocated to the Starting/Rewind JGB Delivery Obligation (Basket) owed to such delivering Clearing Participant by JSCC, at the Collateral Allocation on the day immediately preceding the relevant Allocation Day.
- *2 “Quantity which such delivering Clearing Participant is scheduled to receive on the Allocation Day in relation to the Subsequent Collateral Allocation Repo Transaction, Etc.” means with respect to Subsequent Collateral Allocation Repo Transaction, Etc. for which Allocation Day is the Ending Transaction Delivery Day or the Unwind Settlement Day, when the quantity of issue allocated to the Starting/Rewind JGB Delivery Obligation (Basket) owed to JSCC by such delivering Clearing Participant exceeds quantity of Issue allocated to the Starting/Rewind JGB Delivery Obligation (Basket) owed to such delivering Clearing Participant by JSCC, at the Collateral Allocation on the day immediately preceding Allocation Day, such excessive quantity.
- *3 Excluding issues for which redemption day is the immediately following day of the Allocation Day.
- *4 Excluding issues for which interest payment day is the immediately following day of the Allocation Day.

4. Determination Method of Quantity for Collateral Allocation

(1) Allocation to the Starting/Rewind JGB Delivery Obligation (Basket)

A) Allocation of issues and quantity of Japanese government bonds to the Starting/Rewind JGB Delivery Obligation (Basket) as stipulated in Article 12-2 of Handling Procedures shall be executed in a manner where total amount of market value* for each of Issues to be Allocated shall be larger than and closest to the amount of the market value of the Starting/Rewind JGB Delivery Obligation (Basket)

* The market value in this Item shall be the amount appraised based on the average price stated in the reference statistical prices for over-the-counter transactions published by the Japan Securities Dealers Association as of the date of the Allocation Day (any fractional amount less than one (1) yen shall be rounded down) added by all accrued interest (any fractional amount less than one (1) yen shall be rounded down) for the number of days up to Allocation Day (including holiday) (same applies hereinafter).

B) In cases as stipulated in the A) above, the procedure for the case where the total amount of the market value of Issues to be Allocated falls short of the amount of Starting/Rewind JGB Delivery Obligation (Basket) shall be as follows.

(a) First and Second Collateral Allocation

Collateral Allocation shall be executed for the remained amount of the Starting/Rewind JGB Delivery Obligation (Basket) deducting such shortage amount rounded up in ten (10) million yen (hereinafter referred to as the "Amount subject to First/Second Allocation"). In this case, such deducted amount shall be added to the JGB Delivery Obligation (Basket) amount subject to the next Basket Netting.

(b) Third Collateral Allocation (related to Article 12-2, Paragraph 2 of the Handling Procedures)

AA Collateral Allocation shall be executed by the issue with the largest quantity included in the latest Allocable Balance Notices given by the delivering Clearing Participant on the Allocation Day from 11:00 a.m. to 2:00 p.m.

BB If the delivering Clearing Participant does not give the Allocable Balance Notice between 11:00 a.m. to 2:00 p.m. on the Allocation Day, Collateral Allocation shall be executed by Interest-bearing JGB (10-year) with the fifth largest ISIN Code among issues constituting Basket (excluding issues for which redemption day or interest rate payment day is the immediately following day of the Allocation Day) in relation to such Starting/Rewind JGB Delivery Obligation (Basket). *

* If issues constituting Basket do not include Interest-bearing JGB (10-year), Collateral Allocation shall be executed by the fifth largest ISIN Code among issues constituting Basket related to the relevant Starting/Rewind JGB Delivery Obligation (Basket).

(2) Allocation to Ending/Unwind JGB Delivery Obligation (Basket)

A) Allocation of issues and quantity of Japanese government bonds to Ending/Unwind JGB Delivery Obligation (Basket) stipulated in Article 12-2, Paragraph 3 of Handling Procedures, shall be executed with issues and quantity which allocated to the Starting/Rewind JGB Delivery Obligation (Basket) pursuant to the preceding Item.

B) In cases stipulated in A) above, if total amount of the market value for Issues to be Allocated falls short of the amount of Starting/Rewind JGB Delivery Obligation (Basket), the remaining

amount of the Ending/Unwind JGB Delivery Obligation (Basket) deducting the Amount subject to First/Second Allocation in relation to the Collateral Allocation to the Starting/Rewind JGB Delivery Obligation (Basket) pursuant to the preceding Item B)(a), shall be added to the amount of JGB Delivery Obligation (Basket) subject to next Basket Netting.

5. Order in Collateral Allocation

(1) Order among Baskets

If multiple Baskets in relation to the Position subject to Allocation include common Issues to be Allocated, among the issues prescribed as in the Baskets related to Subsequent Collateral Allocation Repo Transaction, the Collateral Allocation shall be executed in the order from A) to G) listed below,

- A) JGB Basket (Treasury Discount Bills)
- B) JGB Basket (Interest-bearing less than 10 years, Treasury Discount Bills)
- C) JGB Basket (Interest-bearing, Treasury Discount Bills);
- D) JGB Basket (Interest-bearing, Floating-rate Bonds, Treasury Discount Bills)
- E) JGB Basket (Interest-bearing, Interest-bearing GX, Floating-rate Bonds, Treasury Discount Bills)
- F) JGB Basket (Inflation-Indexed, Interest-bearing, Floating-rate, Treasury Discount Bills)
- G) JGB Basket (Inflation-Indexed, Interest-bearing, Interest-bearing GX, Floating-rate, Treasury Discount Bills)

(2) Order among receiving Clearing Participants in relation to Positions subject to Allocation

As to the Collateral Allocation for the Position subject to Allocation between a delivering Clearing Participant and a receiving Clearing Participant in relation to Random Matching, when Positions subject to Allocation for multiple receiving Clearing Participants are related to the single Basket, the Collateral Allocation shall be executed in order from the receiving Clearing Participant with the larger amount for the Position subject to Allocation (including the remained Position subject to Allocation as stipulated in Paragraph 2, item 1,B)).

(3) Order among Issues

- A) Collateral Allocation to the Position subject to Allocation between delivering Clearing Participants and receiving Clearing Participants in relation to the Preferential Matching Collateral Allocation to the Position subject to Allocation between delivering Clearing Participants and receiving Clearing Participants in relation to the Preferential Matching shall be executed in order from the issue with the larger quantity stated in the Allocable Balance Notice * from Issues to be Allocated and Allocable Quantity stipulated in the preceding Items.

* When there are multiple issues with same quantity, Collateral Allocation shall be executed in order from the issue of the smaller ISIN code (the same applies, hereinafter).

B) Collateral Allocation to the Position subject to Allocation between delivering Clearing Participants and receiving Clearing Participants in relation to the Random Matching

(a) Collateral Allocation as to the portion of the Position subject to Allocation corresponding to the amount of integral multiple of face value of five (5) billion yen shall be executed in order from the issue with larger quantity* stated in the Allocable Balance Notice by face value of five (5) billion yen. If, for all issues stated in the Allocable Balance Notice, the remaining quantity is less than the face value of five (5) billion yen, Collateral Allocation shall be executed in order from the issue with larger quantity* stated in the Allocable Balance Notice, using remained quantity for each issue.

(b) Collateral Allocation to the portion of the Position subject to Allocation corresponding to the amount less than face value of five (5) billion yen shall be executed in order from the issue with the larger quantity* stated in the Allocable Balance Notice, using the portion less than face value of five (5) billion yen for each issue.

When, for all of Issues stated in the Allocable Balance Notice, its remained quantity is integral multiple of face value of five (5) billion yen, Collateral Allocation shall be executed in order from the issue with the larger quantity* stated in the Allocable Balance Notice, using the portion of integral multiple of the face value of five (5) billion yen.

* If the Position subject to Allocation of a delivering Clearing Participant includes multiple Baskets, the quantity used for allocation to the Basket for which Collateral Allocation has already been executed shall be deducted.

6. Handling of Clearing Participant holding multiple Netting Accounts and Clearing Participants holding Trust Accounts

In cases where a Clearing Participant opens multiple Netting Accounts, the provisions as stipulated through Paragraph 2 to the preceding Paragraph shall apply to each Netting Account (if such Netting Account is Trust Account, to each Netting unit (referring to a unit specified by Netting Account and the matters classifying unit of netting, as stipulated in Article 40, Paragraph 2, Item (4) B) of the Business Rules).

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