

Settlement Priority and Fail Allocation Rule for JGB OTC Transaction

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Japan Securities Clearing Corporation

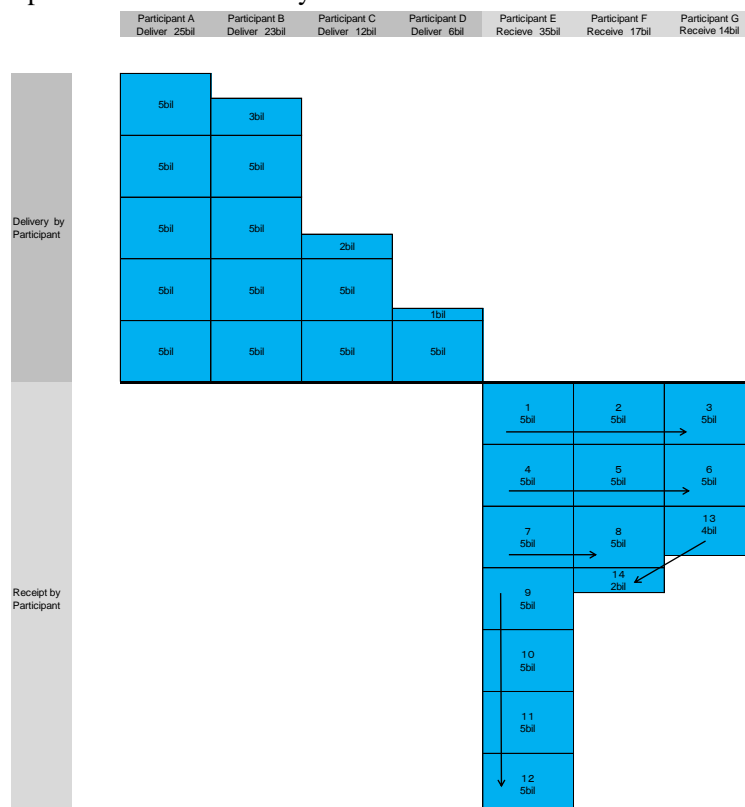
1. Settlement Priority

(1) Settlement Priority for Receiving Clearing Participants

Settlement priority by issue for settlement between JSCC and receiving Clearing Participants shall be determined as follows:

- For settlement between JSCC and receiving Clearing Participants (excluding settlement for Fail resolution), the settlement amount by each Netting Account (for the settlement related to Trust Account of Subsequent Collateral Allocation Repo Transaction, by each Fund Identification Code; the same applies hereinafter for the Netting Accounts) shall be split into units not exceeding 5 billion yen in face value.
- After the settlement amount is split into units, the settlement shall be assigned to the Netting Accounts by each settlement unit equal to 5 billion yen in face value in the priority of the total receiving quantity in the Netting Account where the Netting Account whose total receiving quantity is the largest will have the highest priority.
- Once the settlement is assigned to all settlement units equal to 5 billion yen in face value, then the settlement is assigned in the priority of the receiving quantity of the settlement unit where the settlement unit having the largest settlement quantity gets the highest priority.

< Reference: Example of Settlement Priority >



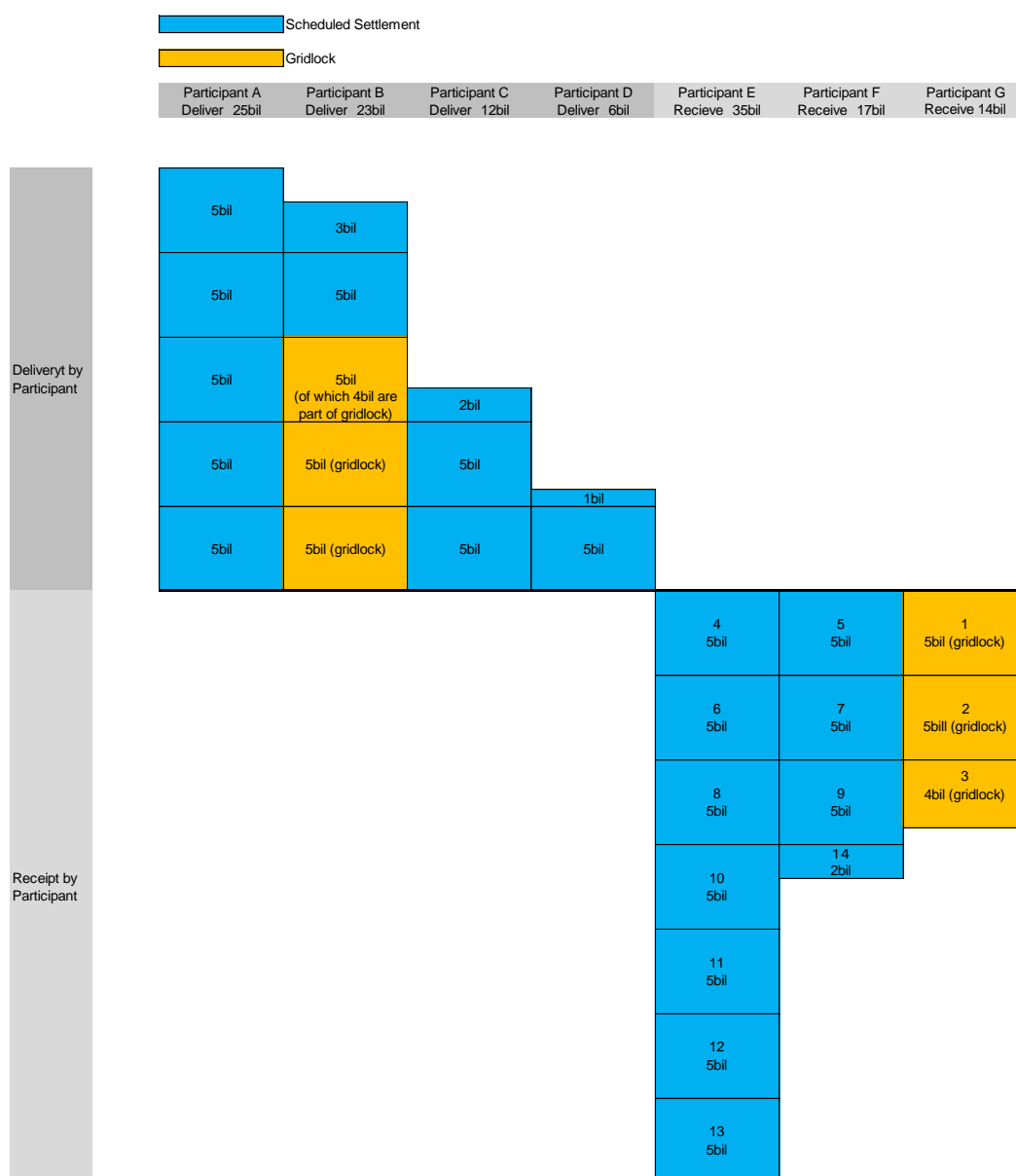
(2) Exception upon Occurrence of Settlement Loop*

Upon occurrence of Settlement Loop, if JSCC considers necessary, it may provisionally change the settlement priority as described below:

- Temporarily suspend the settlement of the issue in gridlock, and the settlement causing a gridlock shall be settled first regardless of the settlement priority described in (1) above; and
- After completion of the settlement causing a gridlock, the settlement will be performed in the order determined as per (1) above.

* “Settlement Loop” means a situation where so-called “gridlock” (i.e., the situation where a party is unable to deliver until it receives a delivery from the other side) of multiple parties forms a loop.

<Reference : Example of Occurrence of Settlement Loop>



2. Fail Allocation Rule

(1) Fail Allocation Rule

If a delivering Clearing Participant causes a Fail, the Fail quantity shall be allocated to receiving Netting Account in descending order of the settlement priority determined according to 1. above (including exception upon occurrence of gridlock) until the total allocated quantity reaches the Fail quantity. In this case, a part of receiving quantity of the settlement unit may become subject to Fail (Partial Fail).

(2) Treatment of Trust Account

If the Netting Account received an allocation of Fail is a Trust Account, JSCC will prepare Fail allocation information for sub-accounts^{*} and notify Clearing Participant holding such Trust Account in the following manner:

^{*} Administration unit for transactions under Trust Account in an Initial Margin Group identified as a combination of Netting Account and Fund Identification Code in the Trade Report Data (JGBs-Gensaki (Subsequent Collateral Allocation Method)) JSCC receives from Pre-Settlement Matching System of Japan Securities Depository Center, Inc.

A) Buying and Selling, Cash-secured Bond Lending Transactions and Standard Repo Transaction

- a. Extract all Trade Report Data the Issue of which is the same as Fail Issue, the settlement date of which is the day fail occurs and a party to which is the sub-account of the Trust Account (excluding the Trade Report Data for which Fail has occurred previously), and offset receipt and delivery.
- b. Out of Trade Report Data whose position is net receipt after the setoff, the Fail quantity is allocated in a random order among those to which the delivering Netting Account causing the Fail (or if such Netting Account is a Trust Account a sub-account causing the Fail; the same applies hereinafter)) is a party, until the allocated quantity reaches the Fail quantity.
- c. If the Fail quantity remains after the allocation made pursuant to b. above, such remaining Fail quantity will be allocated in a random order among Trade Report Data whose position is net receipt but to which the delivering Netting Account causing the Fail is not a party, until the allocated quantity reaches the Fail quantity.

B) Subsequent Collateral Allocation Repo Transaction

- a. Extract all Trade Report Data (JGB/Repo (Subsequent Collateral Allocation Method))(excluding the Trade Report Data for which Fail has occurred previously) whose position is net receipt after the setoff comprising the Basket Netting position to which the same issue as the issue causing Fail has been allocated at Collateral Allocation at same settlement cutoff time
- b. Establish the order for Trade Report Data (JGB/Repo (Subsequent Collateral Allocation Method) prescribed in a. above in a random order and allocate Fail quantity to such Trade Report Data (JGB/Repo (subsequent collateral allocation method)) whose position is net receipt after the setoff.
- c. If Fail amount remains after the allocation made pursuant to b. above^{*}, allocate remained Fail amount to Trade Report Data (JGB/Repo (Subsequent Collateral Allocation Method)) with the

highest priority in the order prescribed in b. above.

- * For Collateral Allocation, as issue and quantity of allocated Japanese government bonds are determined so that the market value of the allocated Japanese government bonds is more than and closest to the delivery amount (contract amount), the case where Fail amount exceeds the delivery amount (contract amount) may occur.

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