

Interest Rate Swap Clearing Business Rules

Original Document Title: 金利スワップ取引清算業務に関する業務方法書

Note

1. JSCC hereby certifies that to the best of its knowledge, the foregoing is a fair and accurate English translation of a document originally written in Japanese. In the event of any inconsistency between the original Japanese document and this reference English translation, the original Japanese document will prevail.
2. For convenience purposes, we have added certain explanatory footnotes that do not appear in the Japanese original.
3. For convenience purposes, we have included Attachment 1, which provides an English alphabetized list of the definitions set forth in Article 2.
4. For convenience purposes, we have included Attachment 2, which provides definitions of certain Japanese concepts that are not defined in Article 2 of our rules.

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Chapter 1 General Provisions (Articles 1 – 7)

Article 1. Purpose

1 The purpose of these Interest Rate Swap Clearing Business Rules (hereinafter referred to as “Business Rules”) is to set forth the matters necessary for the Clearing Service and businesses incidental thereto including the matters set forth below, in which the Subject Transactions are the IRS Transactions (hereinafter referred to as the “IRS Clearing Business”) conducted by Japan Securities Clearing Corporation (hereinafter referred to as “JSCC”):

- (1) Matters necessary between JSCC and the Clearing Participants in respect of Clearing by JSCC and the Cleared Contracts;
- (2) Matters necessary between Clearing Participants in respect of Eligible IRS Transactions in connection with which Clearing is applied for to JSCC;
- (3) In respect of the Underlying Transaction of Clearing Brokerage, the matters necessary between a Customer and a Clearing Participant who is the counterparty to such Underlying Transaction of Clearing Brokerage or with another Customer;
- (4) Matters necessary among JSCC, a Clearing Participant and a Customer in respect of Clearing Brokerage;
- (4)-2 In respect of the Cross Margining, matters necessary among JSCC, a Clearing Participant and a Customer; and
- (5) In addition to those set forth in each item above, matters necessary among JSCC, Clearing Participants and Customers in respect of IRS Clearing Business conducted by JSCC.

2 The Rules ¹ shall apply only to the IRS Clearing Business conducted by JSCC.

Article 2. Definitions

1 The terms used in the Rules shall have definitions from the Financial Instruments and Exchange Act (Act No. 25 of 1948), the ISDA Definitions and the following items shall be

¹ “Rules” is defined in Article 2.(65).

defined as follows:

- (1) “Transfer” means any of the following:
 - a. a process to have a Clearing Brokerage Contract between a Transferring Customer (as such term defined in Article 58-4.1; the same applies in this item) and the Clearing Broker for the Transferring Customer terminate and to have the claims and obligations thereunder cease to have future effect pursuant to the provisions of Article 58-5.4;
 - b. a process to have a Clearing Brokerage Contract between a Transferring Customer and the Clearing Broker for the Transferring Customer terminate and to have the claims and obligations thereunder cease to have future effect pursuant to the provisions of Article 58-5.4, and simultaneously to have a legal relationship with the same terms and conditions as the said Clearing Brokerage Contract come into effect between the Receiving Customer (as such term defined in Article 58-4.1) and the Clearing Broker for the Receiving Customer; and
 - c. a process to have a legal relationship with the same economic effect as the Proprietary Cleared Contract between JSCC and the Transferring Clearing Participant (as such term defined in Article 58-6.1) come into effect between a Receiving Customer (as such term defined in Article 58-6.1) and the Clearing Broker for the Receiving Customer;
- (1)-2 “Customer Initial Margin” means any Japanese yen Cash or Eligible Securities Collateral deposited with a Clearing Broker by a Customer and kept by the Clearing Broker with the consent of the Customer for the purpose of securing the obligations of such Customer set forth in Article 61.1.(2);
- (2) “Customer Account” means a customer account set forth in Article 59.2;
- (2)-2 “Vendor-Initiated Compression” means a process to conduct Compression of a package of Cleared Contracts of multiple Clearing Participants as prescribed by JSCC in accordance with the provisions of Article 53-2-2.
- (2)-3 “JPY Cleared Contract” means a Cleared Contract whose Notional Amount and settlement currency are denominated in Japanese yen.

- (3) “Parent Company” means, with respect to a Legal Entity,
- a. a parent company of such Legal Entity (meaning any other Legal Entity controlling the financial and business policy of such Legal Entity)
 - b. a Legal Entity controlling the financial and business policy of a parent company of such Legal Entity, if any;
 - c. a subsidiary of a parent company of a Legal Entity (meaning any other Legal Entity whose financial and business policy is controlled by a parent company of such Legal Entity);
 - d. a subsidiary of a Legal Entity described in c. above; and
 - e. other persons deemed by JSCC as those equivalent to the foregoing;
- (4) “Parental Guarantee” means a guarantee extended by the Parent Company of a Clearing Participant to secure the obligation of such Clearing Participant owing to JSCC by submitting a letter of guarantee in the form prescribed by JSCC², including other documents deemed by JSCC to be equivalent to such letter of guarantee, to JSCC;
- (4)-2 “Unwind Fee” means, when Cleared Contracts terminate before its scheduled Termination Date as a result of Vendor-Initiated Compression, Member-Initiated Compression or JSCC-Initiated Compression, Cash to be paid or received between JSCC and Clearing Participants which are parties to the relevant Cleared Contracts;
- (4)-3 “Foreign Currency Cleared Contract” means Cleared Contract whose Notional Amount and settlement currency are denominated in any currency other than Japanese yen;
- (4)-4 “Foreign Currency Home Business Day” means Sydney Business Day for AUD Cleared Contracts, New York Business Day for USD Cleared Contracts and TARGET Settlement Day for EUR Cleared Contracts;

² cf. Handling Procedures of IRS Clearing Business, Article 3 as well as Exhibit Form 1.

- (4)-5 “Foreign Currency Home Holiday” means any day other than Foreign Currency Home Business Day;
- (4)-6 “Customer Buffer” means Initial Margin a Clearing Broker deposits with or delivers to JSCC for the purpose of allocation to a deficit pursuant to the provisions of Article 84-7 when a Customer has not deposited with or delivered to JSCC an amount sufficient to cover the Margin Required to Clear set forth in Article 49.1 or the Required Intraday Margin set forth in Article 69.1;
- (4)-7 “Customer Buffer Cap” means an upper allocation limit of the Customer Buffer for each Customer Account, which a Clearing Broker sets as a cap on the accumulated amount for one JSCC Business Day allowed to be allocated, and notifies to JSCC pursuant to the provisions of Article 84-6;
- (4)-8 “Customer Buffer Unallocated Balance” means the amount obtained by subtracting the amount of Customer Buffer already allocated pursuant to the provisions of Articles 84.7.1 and 84.7.2 to Customer Accounts of Customers who have concluded the Clearing Brokerage Agreement with the relevant Clearing Broker from the amount of the Customer Buffer deposited with JSCC by the Clearing Broker.
- (5) “Corporate Group” means a corporate group set forth in Article 5.1.(2) of the Financial Instruments and Exchange Act;
- (6) “Early Termination” means a termination of a Cleared Contract before the Termination Date for any reason other than Compression;
- (7) “Early Termination Charge” means Cash received and paid between the parties to a Cleared Contract in the case of its Early Termination;
- (8) “Subordinate Rules” means the rules set by JSCC that are subordinate to these Business Rules, in whatever name and including the amendments thereto, if any;
- (9) “Business Holiday” means a holiday set forth in Article 5.1 or an extraordinary holiday set forth in Article 5.2;

- (9)-2 “Cash” means Japanese yen, Australian dollars, United States dollars and Euro;
- (10) “Funds” means Cash, securities, claims and any other property;
- (10)-2 “Interest Rate Futures Cleared Contract” means a Cleared Contract related to Interest Rate Futures Contract;
- (10)-3 “Interest Rate Futures Contract” means an Interest Rate Futures Contract set forth in Article 3.2.(4)-2 of the Securities and Similar Contracts Business Rules;
- (11) “IRS Clearing Fund” means Japanese yen Cash or Eligible Securities Collateral deposited with JSCC by each Clearing Participant for the purpose set forth in Article 17.1;
- (12) “IRS Clearing Qualification” means a permission to become a JSCC’s counterparty in a Cleared Contract in accordance with the Rules which may be granted or cancelled by JSCC;
- (13) “IRS Transaction” means an interest rate swap transaction which is an OTC derivatives transaction prescribed in Article 2.22.(5) of the Financial Instruments and Exchange Act;
- (13)-2 “Blended Rates Compression” means a process to conduct Compression in the manner prescribed by JSCC in accordance with the provisions of Article 53-2.
- (13)-2-2 “Client Clearing” means a Clearing for a Customer which does not belong to the same Corporate Group as its Clearing Broker;
- (13)-3 “Cross Margining Accepting Party” means a Clearing Participant which gives, pursuant to the provisions of Article 84-2.2, to JSCC a notice of acceptance or rejection of an application for having Positions in JGB Futures Contracts or Interest Rate Futures Contracts covered under Cross Margining submitted to JSCC pursuant to the provisions of the Securities and Similar Contracts Business Rules (“Cross Margining Request”);

- (13)-4 “Cross Margining Requestor” means a JGB Futures Clearing Participant which makes a Cross Margining Request to JSCC;
- (13)-5 “Cross Margining” means a scheme of calculating Required Initial Margin for Positions in JGB Futures Contracts or Interest Rate Futures Contracts designated by JSCC under the Rules³;
- (13)-6 “Cross Margined Interest Rate Futures Cleared Contract” means an Interest Rate Futures Cleared Contract Positions in which are recorded on a Proprietary Account or a Customer Account pursuant to the provisions of Article 84-4.3
- (13)-7 “Cross Margined JGB Futures Cleared Contract” means a JGB Futures Cleared Contract Positions in which are recorded on a Proprietary Account or a Customer Account pursuant to the provisions of Article 84-4.3;
- (13)-8 “Cross Margining Acceptance” means giving a notice of acceptance of Cross Margining Request pursuant to the provisions of Article 84-4.2:
- (13)-9 “Cross Margining User” means a Clearing Participant or a Customer falling under any of the items a. through d. below, and utilizing Cross Margining for its Positions in JGB Futures Contracts or Interest Rate Futures Contracts on its book with respect to whom the notification prescribed in Article 84-2 has been submitted to JSCC:
- a. A JGB Futures Clearing Participant;
 - b. A Customer who requested brokerage of its JGB Futures Contracts or Interest Rate Futures Contracts to a JGB Futures Clearing Participant;
 - c. A JGB Futures Non-Clearing Participant; or
 - d. A Customer who requested brokerage of its JGB Futures Contracts or Interest Rate Futures Contracts to a JGB Futures Non-Clearing Participant.
- (14) “Settlement Amount” means, in respect of a Cleared Contract, the amount of Cash to be paid or received between JSCC and a Clearing Participant (excluding those to be paid or received as IRS Clearing Fund, Initial Margin, Variation Margin and interests on Variation Margin) or, if such Cash are paid or received on a net basis pursuant to the provisions of Article 85.2 or Article 85-4.2 hereof among such monies, the amount so netted ;

³ cf. Handling Procedures of IRS Clearing Business, Article 3-2.

- (15) “Failure of Settlement” means a default or anticipated default in the performance of obligations arising as a result of a Cleared Contract or any other obligations under the Rules in whole or in part by the due date thereof;
- (15)-2 “AUD Cleared Contract” means a Cleared Contract whose Notional Amount and settlement currency are denominated in Australian dollars;
- (15)-3 “Listed Futures Position Transfer” means a process to have new claims and obligations related to JGB Futures Cleared Contracts and the like and new claims and obligations related to Interest Rate Futures Cleared Contracts and the like accrue among JSCC, the JGB Futures Clearing Participant and the Cross Margining User falling under the provisions of Article 2.1.(13)-9.b. to d. (and a JGB Non-Clearing Participant which accepted a brokerage of JGB Futures Contracts for a person falling under Article 2.1.(13)-9.d.) and to pay or receive Cash and settle claims and obligations in association therewith, in accordance with the provisions of Article 94-3. The claims and obligations related to JGB Futures Cleared Contracts and the like means the claims and obligations related to JGB Futures Cleared Contracts, a Clearing brokerage for JGB Futures Contracts and a brokerage for JGB Futures Contracts; and the same shall apply hereinafter, and the claims and obligations related to Interest Rate Futures Cleared Contracts and the like means the claims and obligations related to Interest Rate Futures Cleared Contracts, a Clearing brokerage for Interest Rate Futures Contracts and a brokerage for Interest Rate Futures Contracts; and the same shall apply hereinafter;
- (15)-4 “Listed Futures Successor Clearing Broker” means a JGB Futures Clearing Participant that has assumed the claims and obligations arising as a result of the Listed Futures Position Transfer.
- (15)-5 “JGB Futures Cleared Contract” means a Cleared Contract related to JGB Futures Contract;
- (15)-6 “JGB Futures Clearing Participant” means a JGB Futures Clearing Participant set forth in Article 5.3 of the Securities and Similar Contracts Business Rules;
- (15)-7 “JGB Futures Non-Clearing Participant” means a JGB Futures Non-Clearing

Participant set forth in Article 73-6.2 of the Securities and Similar Contracts Business Rules;

- (15)-8 “Listed Futures Backup Clearing Broker” means a JGB Futures Clearing Participant who has been designated by a Cross Margining User in advance in accordance with the provisions of Article 45-3 as a JGB Futures Clearing Participant to accept Listed Futures Position Transfer in respect of the claims and obligations related to the JGB Futures Cleared Contracts and the like and the claims and obligations related to the Interest Rate Futures Cleared Contracts and the like when the claims and obligations come into existence in accordance with the provisions of Article 84-5.1.
- (15)-9 “JGB Futures Contract” means a JGB Futures Contract set forth in Article 3.2.(3) of the Securities and Similar Contracts Business Rules;
- (16) “Uniform International Standard” means the uniform international standard set forth in Article 1.4 of “Order Providing for the Categories, etc. Prescribed in Article 26, Paragraph 2 of the Banking Act” (Ordinance of the General Administrative Agency of the Cabinet and the Ministry of Finance No. 39, 2000), Article 1.4 of “Order Providing for the Categories, etc. Prescribed in Article 26, Paragraph 2 of the Banking Act Applied *mutatis mutandis* pursuant to Article 17 of the Long Term Credit Bank Act” (Ordinance of the General Administrative Agency of the Cabinet and the Ministry of Finance No. 40, 2000), or Article 3.5 of “Order Providing for the Categories, etc. Prescribed in Article 26, Paragraph 2 of the Banking Act Applied *mutatis mutandis* pursuant to Article 89, Paragraph 1 of Shinkin Bank Act” (Ordinance of the General Administrative Agency of the Cabinet and the Ministry of Finance No. 41, 2000);⁴
- (17) “Japanese Standard” means the standard in Japan set forth in Article 1.5 of “Order Providing for the Categories, etc. Prescribed in Article 26, Paragraph 2 of the Banking Act”, Article 1.5 of “Order Providing for the Categories, etc. Prescribed in Article 26, Paragraph 2 of the Banking Act Applied *mutatis mutandis* pursuant to Article 17 of the Long Term Credit Bank Act”, or Article 3.4 of “Order Providing for the Categories, etc. Prescribed in Article 26, Paragraph 2 of the Banking Act Applied *mutatis mutandis* pursuant to Article 89, Paragraph 1 of the Shinkin Bank

⁴ Uniform International Standard is a standard prescribed in Japan under Basel III.

Act”;

(18) “Fixed Resources for Loss Recovery” means the First Tier IRS Settlement Guarantee Reserve, the Second Tier IRS Settlement Guarantee Reserve and the IRS Clearing Fund deposited with JSCC by each Clearing Participant, up to the Second Tier Clearing Participant Cap, other than the Defaulting Clearing Participant;

(18)-2 “Compression” means a process to have Cleared Contract(s) terminated before its scheduled Termination Date and have new Cleared Contract(s) simultaneously established;

(19) “Clearing” means execution of an IRS Transaction between JSCC as a principal and each Clearing Participant who is a party to an Eligible IRS Transaction pursuant to Article 49;

(19)-2 “Shortfall in Margin Required to Clear” means, when the sum of the Initial Margin Deposited Amount set forth in Article 66 and the amount of the Customer Buffer allocated to the relevant Customer Account as of the time at which the notification set forth in Article 54.1 related to the request for brokerage for clearing (including the case where such provisions apply mutatis mutandis under Article 54-2.1) is given is less than the Margin Required to Clear set forth in Article 49, the amount equal to the difference between the Margin Required to Clear and the said sum.

(20) “Substituted Initial Margin” means an Initial Margin deposited with JSCC by a Clearing Broker from its own funds for and on behalf of itself and its Customers in respect of a Customer’s Cleared Contract for which they act as the Clearing Broker;

(20)-2 “Member-Initiated Compression” means a process to conduct Compression in the manner prescribed by JSCC in accordance with the provisions of Article 53-2-3.

(21) “Net Capital” means,

for a Financial Instrument Business Operator, the amount of unfixed equity capital set forth in Article 1,4,(2) of the Cabinet Office Ordinance Concerning Financial Instruments Business Operator etc. (Cabinet Office Ordinance No. 52 of 2007);

for a Registered Financial Institution other than insurance company or shinkin bank having one or more overseas office, the amount of gross equity capital used for the calculation of the non-consolidated gross capital adequacy ratio based on the Uniform International Standard (in the case of a foreign bank, the amount of equity capital used for the calculation of the non-consolidated capital adequacy ratio under the applicable laws and regulations in its home country);

for a Registered Financial Institution other than insurance company having no overseas office and a Registered Financial Institution which is a shinkin bank having one or more overseas office, the amount of equity capital used for the calculation of the non-consolidated capital adequacy ratio based on the Japanese Standard; and

for a Registered Financial Institution which is an insurance company, the amount of net assets;

(22) “Capital-to-Risk Ratio” means the capital-to-risk ratio set forth in Article 46-6.1 of the Financial Instruments and Exchange Act;

(23) “Proprietary Account” means a proprietary transaction account set forth in Article 59.2;

(23)-2 “Designated Market Operator” means a designated market operator set forth in Article 3.2.(1) of the Securities and Similar Contracts Business Rules designated by JSCC⁵;

(23)-3 “Sydney Business Day” means a day on which banks are open for business in Sydney, Australia and fund settlement in Australian dollars is performed;

(24) “Clearing Broker” means a Clearing Participant who has entered into a Clearing Brokerage Agreement with a Customer;

(24)-2 “Position Transfer” means a process to have new claims and obligations related to a Proprietary Cleared Contract accrue between JSCC and the Clearing Participant

⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 3-3.

and to pay or receive Cash and settle claims and obligations in association therewith, in accordance with the provisions of Article 53-4.4 or a process to have new claims and obligations related to Customer's Cleared Contracts and Clearing Brokerage Contracts accrue among JSCC, a Clearing Participant and a Customer, and to pay or receive Cash and settle claims and obligations in association therewith, in accordance with the provisions of Article 58-3.4, Article 94.6 or Article 94-2.2;

- (24)-3 "Successor Clearing Broker" means a Clearing Broker that has assumed the claims and obligations arising as a result of the Position Transfer.
- (24)-4 "Securities and Similar Contracts Business Rules" means the business rules prescribed by JSCC for its securities and similar contracts clearing business;
- (25) "Margin" collectively means Initial Margin, Customer Initial Margin and Variation Margin;
- (26) "Net Present Value" means the value calculated by discounting the future cash-flows arising from an IRS Transaction to the present value according to the method prescribed by JSCC⁶;
- (26)-2 "Available Customer Buffer Amount at New Clearing" means an amount of the Customer Buffer made available to a Customer intending to request a Clearing Broker to act on its behalf, which is equal to the amount obtained by subtracting the amount of the Customer Buffer already allocated to the relevant Customer Account as of the time at which the notification set forth in Article 54.1 related to the relevant request (including the case where such provisions apply *mutatis mutandis* under Article 54-2.1) is given from the Customer Buffer Cap, or, if such amount is more than the Customer Buffer Unallocated Balance, the amount of such Customer Buffer Unallocated Balance;
- (27) "Customer" means a person who has entered into a Clearing Brokerage Agreement with a Clearing Participant and submitted a letter of undertaking as prescribed in Article 43.2 to JSCC, and who satisfies the requirements prescribed by JSCC⁷;

⁶ cf. Handling Procedures of IRS Clearing Business, Article 4.

⁷ cf. Handling Procedures of IRS Clearing Business, Article 5.

- (28) “Clearing Brokerage Contract” means a legal relationship between a Clearing Broker and a Customer coming into effect as a result of each Clearing Brokerage in accordance with the Clearing Brokerage Agreement, which has the same economic effect as the Customer’s Cleared Contract coming into effect as a result of the said brokerage;
- (28)-2 “Clearing Brokerage Contract (Settlement Type)” means a contract for which Variation Margin shall not be paid or received, but Mark-to-Market Difference shall be paid or received pursuant to these Business Rules;
- (28)-3 “Clearing Brokerage Contract (Collateral Type)” means a contract for which Variation Margin shall be paid or received pursuant to these Business Rules;
- (29) “Clearing Participant” means a person who holds an IRS Clearing Qualification;
- (30) “Clearing Participant Agreement” means an agreement between JSCC and a Clearing Participant in the form prescribed by JSCC⁸, which incorporates the terms of the Rules;
- (31) “Clearing Brokerage Agreement” means an agreement entered into between a Customer and a Clearing Broker in the form prescribed by JSCC⁹, including any agreements entered into between the Clearing Broker and a Customer in accordance with such agreement, under which the Clearing Broker may accept the Customer’s IRS Transactions for Clearing;
- (32) “Clearing Brokerage Original Transaction” means the original IRS Transaction that existed between a Customer and a Clearing Participant or another Customer for which the Customer requested Clearing via their Clearing Broker;
- (33) “Clearing Brokerage Account” means a clearing brokerage account as set forth in Article 60.1;
- (34) “Cleared Contract” means an IRS Transaction between JSCC and a Clearing

⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 6, as well as Exhibit Form 2.

⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 7, as well as Exhibit Form 3.

Participant that comes into effect as a result of Clearing;

(35) "Customer's Cleared Contract" means a Cleared Contract on the Customer's book executed by a Clearing Broker according to a request of a Customer for Clearing Brokerage;

(35)-2 "Cleared Contract (Settlement Type)" means a Cleared Contract for which Variation Margin shall not be paid or received, but Mark-to-Market Difference shall be paid or received pursuant to these Business Rules;

(36) "Proprietary Cleared Contract" means a Cleared Contract executed by a Clearing Participant on its proprietary book;

(36)-2 "Cleared Contract (Collateral Type)" means a Cleared Contract for which Variation Margin shall be paid or received pursuant to these Business Rules;

(36)-3 "Mark-to-Market Difference" shall collectively refer to the Cash listed in the following items:

- a. Cash paid or received between JSCC and a Clearing Participant on each JSCC Business Day to settle exposure related to the change in present value prescribed in Article 61-2.1. (1);
- b. Cash paid or received between JSCC and a Clearing Broker on each JSCC Business Day to settle exposure related to the change in present value prescribed in Article 61-2.1. (2); and
- c. Cash paid or received between a Clearing Broker and its Customer on each JSCC Business Day to settle exposure related to the change in present value prescribed in Article 61-2.1. (3);

(36)-4 "Mark-to-Market Difference And Adjustment Amount" collectively means the Mark-to-Market Difference and Adjustment Amount related to Mark-to-Market Difference;

(36)-5 "Adjustment Amount related to Mark-to-Market Difference" means Cash as set forth in Article 83.2.1;

(37) "Resources for Loss Recovery" means the Fixed Resources for Loss Recovery and the Liquid Resources for Loss Recovery to be used in accordance with the Rules

to recover the losses which JSCC may incur upon the Default of any Clearing Participant.

- (38) “First Tier IRS Settlement Guarantee Reserve” means an amount set aside by JSCC in accordance with the Subordinate Rules¹⁰ for the purpose of covering losses arising from the Default of a Clearing Participant;
- (39) “Second Tier IRS Settlement Guarantee Reserve” means an amount set aside by JSCC in accordance with the Subordinate Rules¹¹ for the purpose of covering losses arising from the Default of a Clearing Participant;
- (40) “Second Tier Clearing Participant Cap” means the Required IRS Clearing Fund contribution of each Clearing Participant as of the JSCC Business Day immediately preceding the start date of the Default Settlement Period in which the Default Determination Date in respect of the Defaulting Clearing Participant set forth in Article 103.1 falls.
- (41) “Third Tier Special Clearing Charge” means Japanese yen Cash paid by a Clearing Participant to JSCC in accordance with the provisions of Article 105;
- (42) “Third Tier Special Clearing Charge Collateral” means Japanese yen Cash deposited by a Clearing Participant with JSCC for the purpose described in Article 107.1.(1);
- (43) “Fourth Tier Special Clearing Charge” means Cash paid by a Clearing Participant to JSCC in accordance with the provisions of Article 106;
- (44) “Fourth Tier Special Clearing Charge Collateral” means Cash deposited by a Clearing Participant with JSCC for the purpose described in Article 107.1.(2);
- (45) “Eligible Securities Collateral” mean the securities specified by JSCC¹² that may be deposited as the IRS Clearing Fund, Initial Margin, Customer Initial Margin or

¹⁰ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 3.

¹¹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 4.

¹² *cf.* Handling Procedures of IRS Clearing Business, Article 8.

Default Contingent Margin;

- (45)-2 “Position” means “Position” as defined in Article 45-2.2 of the Securities and Similar Contracts Business Rules;
- (46) “Other Clearing Business” means the Clearing Service and businesses incidental thereto carried out by JSCC excluding the IRS Clearing Businesses;
- (47) “Eligible IRS Transaction” means an IRS Transaction between Clearing Participants which satisfies the requirements prescribed by JSCC¹³;
- (48) Deleted;
- (49) “JSCC Business Day” means any day other than a Business Holiday¹⁴;
- (50) “Initial Margin” means Japanese yen Cash or Eligible Securities Collateral deposited with JSCC by a Clearing Participant or a Customer for the purpose of securing the obligations prescribed in Article 61.1.(1);
- (51) “Special Clearing Charge” collectively refers to the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge;
- (52) “Special Clearing Charge Collateral” collectively refers to the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral;
- (52)-2 “Per Trade Compression” means a process of conducting Compression through a method prescribed by JSCC in accordance with the provisions of Article 53;
- (53) “Transaction Side” means a distinction of a leg under an IRS Transaction set forth in a. or b. below in accordance with the classification of IRS Transactions set forth in each such item:
 - a. IRS Transaction in which both parties are obliged to pay Floating Rates: distinction of each side under such IRS transaction in which both parties are obliged to pay

¹³ *cf.* Handling Procedures of IRS Clearing Business, Article 9.

¹⁴ *cf.* IRS Clearing Business Rules, Article 5.

Floating Rates pursuant to Confirmation or the Rules, or

- b. IRS Transaction other than the above: distinction between Floating Rate Payer or Fixed Rate Payer
- (54) "Intraday Margin" means Initial Margin to be deposited pursuant to Article 67 through Article 70 hereof.
- (54)-2 "Available Customer Buffer Amount at Intraday Margin Calculation" means an amount of the Customer Buffer made available for an allocation to the relevant Customer Account at the time of calculation of the Required Intraday Margin for the Customer set forth in Article 69.1, which is equal to the amount obtained by subtracting the amount of the Customer Buffer already allocated to the relevant Customer Account as of the time of the Intraday Margin calculation from the Customer Buffer Cap, or, if such amount is more than the Customer Buffer Unallocated Balance, the amount of such Customer Buffer Unallocated Balance;
- (54)-2-2 "New York Business Day" means any day on which banks are open for business in New York City, U.S.A. and fund settlement in United States dollars is performed:
- (54)-3 (Deleted)
- (54)-4 "Non-hedge Account" means a classification of Customer Account designated as non-hedge account pursuant to the provisions of Article 59.7.
- (55) "Default Contingent Margin" means Japanese yen Cash or Eligible Securities Collateral to be deposited with JSCC by a Clearing Participant for the purpose of securing the obligations set forth in Article 108.1 hereof.
- (56) "Default Settlement Period" means a period of 30 days from the Default Determination Date with respect to the Default of such Clearing Participant, except in the case where another Default is determined during an existing Default Settlement Period, in which case, the Default Settlement Period shall be extended to the day 30 days after the Default Determination Date for such subsequently occurred Default;

- (57) "Default Auction" means the Default Auction prescribed in Article 95;
- (58) "Defaulting Clearing Participant" means a Clearing Participant determined by JSCC to be in Default, and when Defaulting Clearing Participant is acting for a Customer, it may also be referred to as "Defaulting Clearing Broker";
- (59) "Default" means any of the following events and actions:
- a. Become, or be likely to become, unable to pay (as prescribed in Article 2.11 of the Bankruptcy Act (Act No. 75 of 2004)) or to become insolvent with excess liabilities (as prescribed in Article 16.1 of the Bankruptcy Act);
 - b. Become subject to suspension of transactions by a clearinghouse or an Electronic Monetary Claim Recording Institution defined in Article 2.2 of the Electronically Recorded Monetary Claims Act (Act No. 102 of 2007);
 - c. Suspend its payment (meaning suspension of payment by which insolvency is presumed pursuant to the provisions of Article 15.2 of the Bankruptcy Act) or occurrence of similar events;
 - d. Dissolve itself (excluding dissolution due to a merger);
 - e. Petition for commencement of bankruptcy proceedings, commencement of rehabilitation proceedings, commencement of reorganisation proceedings or commencement of special liquidation or acknowledgement of foreign insolvency proceedings is filed (including the petitions equivalent thereto under any foreign laws and regulations);
 - f. An event which causes commencement of bankruptcy proceedings, rehabilitation proceedings, reorganisation proceedings or special liquidation (including that equivalent thereto under any foreign laws and regulations) has occurred; or
 - g. Only with respect to Clearing Participants whose Cross Margined JGB Futures Cleared Contracts or Cross Margined Interest Rate Futures Cleared Contracts are recorded on their Clearing Participant Accounts (other than those which also are JGB Futures Clearing Participants), an acceleration of obligations under an

Agreement for Setting up Futures/Options Trading Account_prescribed by the Designated Market Operator for brokerage of JGB Futures Contracts or under a Contract for Commissioning Clearance Relating to JGB Futures, Etc. Contracts concluded for brokerage of Clearing pursuant to the provisions of Article 39 of the Securities and Similar Contracts Business Rules;

- (60) "Default Determination Date" means the day on which JSCC determines the Default of a Clearing Participant;
- (60)-2 "Backup Clearing Broker" means a Clearing Broker (limited to the one who has obtained an approval set forth in Article 12-2) who has been designated by a Customer in advance in accordance with the provisions of Article 45-2 as a Clearing Broker to succeed to the claims and obligations related to the Cleared Contracts (Customer Account) and the Customer Clearing Contracts executed on the account of the relevant Customer when a Default is acknowledged with respect to the Clearing Broker who then is providing the Customer Clearing to the relevant Customer.
- (61) (Deleted);
- (62) "Non-resident" means a non-resident prescribed in Article 6.1.(6) of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949);
- (62)-2 "USD Cleared Contract" means a Cleared Contract whose Notional Amount and settlement currency are denominated in United States dollars;
- (62)-3 "Hedge Account" means a classification of Customer Account notified as hedge account pursuant to the provisions of Article 59.7.
- (63) "Variation Margin" shall collectively refer to the Cash listed in the following items:
- a. The Cash received and paid between a Clearing Participant and JSCC on each JSCC Business Day for the purpose of securing the obligations listed in Article 61.1.(3);
 - b. The Cash received and paid between a Clearing Broker and JSCC on each JSCC

Business Day for the purpose of securing the obligations listed in Article 61.1.(4);
and

- c. The Cash received and paid between a Clearing Broker and a Customer on each JSCC Business Day for the purpose of securing the obligations listed in Article 61.1.(5).

(63)-2 “Cash Settlement Amount” means Variation Margin, interest on Variation Margin, amount to be settled and other Cash to be paid or received under Cleared Contracts.

(64) “Legal Entity” means a corporate body, an association or any other entities equivalent thereto (including overseas entities equivalent thereto);

(65) “Rules” shall collectively refer to the Business Rules, the Subordinate Rules and Documents Setting Forth Handling of ISDA-Based Documents;

(66) “Liquid Resources for Loss Recovery” means the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge.

(67) “Consolidated Capital-to-Risk Ratio” means the consolidated capital-to-risk ratio set forth in the Article 2 of “Establishment of Criteria for Judgment on the Adequacy of Equity Capital of a Special Financial Instruments Business Operator and its Subsidiary Entities in Light of Assets, etc. Held by Such Special Financial Instruments Business Operator and its Subsidiary Entities”(Financial Services Agency Public Notice No. 128 of 2010);

(68) “Officer” means an officer prescribed in Article 329 of the Company Act (Act No.86 of 2005) (in respect of a Legal Entity other than a limited company¹⁵, a person who is treated as equivalent to an officer of a limited company under the applicable laws and regulations);

(68)-2 “EUR Cleared Contract” means a Cleared Contract whose Notional Amount and settlement currency are denominated in Euro.

¹⁵ Kabushiki Kaisha under the Company Act.

- (69) "ISDA" means International Swaps and Derivatives Association, Inc.;
- (70) "Documents Setting Forth Handling of ISDA-Based Documents" mean the documents prescribed by JSCC by notification to Clearing Participants or public notice in connection with the matters necessary to apply the ISDA Master Agreement and the ISDA Definitions to a Cleared Contract and any other matters in accordance with the provisions of the Subordinate Rules¹⁶;
- (71) "ISDA Master Agreement" means the 2002 ISDA Master Agreement published by ISDA in 2003 (including any changes, amendments or supplements in writing published by ISDA and specified by JSCC) which shall be applied to Cleared Contracts;
- (72) "ISDA Definitions" means the 2021 ISDA Interest Rate Derivatives Definitions published by ISDA in 2021 (including any changes, amendments or supplements published by ISDA and specified by JSCC¹⁷);
- (72)-2 "JSCC-Initiated Compression" means a process to conduct Compression of a package of Cleared Contracts related to two or more Clearing Participants or Customers as prescribed by JSCC in accordance with the provisions of Article 53-2-4;
- (73) "TARGET Settlement Day" means any day on which Trans-European Automated Real-Time Gross Settlement Express Transfer System, a Euro fund settlement system, is in operation and a fund settlement in Euro is performed.

2 The terms listed in the "Term" column in the table attached hereto as the Annex among the terms used in the Rules, shall refer to the corresponding terms listed in the "ISDA Definitions" column as defined in the relevant section of the "ISDA Definitions" stated in the "Section" column.

3 If there is a discrepancy between the meaning of any term used in the Financial Instruments and Exchange Act or the ISDA Definitions and the Rules, the meaning in the Rules shall prevail.

¹⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 10.

¹⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 11.

Article 3. Clearing Service.

The businesses to be carried out by JSCC shall be the Financial Instruments Obligation Assumption Service for IRS Transactions under the Rules as well as the businesses related thereto as prescribed in Article 156-6.1 of the Financial Instruments and Exchange Act.

Article 4. Subject Transaction for Clearing

The transactions subject to IRS Clearing Business carried out by JSCC ("Subject Transaction for Clearing") shall be Eligible IRS Transactions.

Article 5. Business Holiday

1 The Business Holidays of JSCC shall be as follows:

- (1) Sundays;
- (2) National holidays prescribed by the Act on National Holidays (Act No. 178 of 1948);
- (3) Saturdays; and
- (4) 2 January, 3 January and 31 December.

2 JSCC may establish extraordinary holidays, only when and to the extent that JSCC deems it necessary to suspend the entire IRS Clearing Business for one full day or longer due to Acts of God, social turmoil such as war or riot, complete outage of infrastructure such as electricity or telecommunications, an order of a court or other public institutions, or any other unavoidable reason.

3 JSCC may temporarily suspend all or a part of the IRS Clearing Business, or carry out all or a part of the IRS Clearing Business outside of its ordinary business hours, only when and to the extent that JSCC deems it necessary to secure proper execution of the IRS Clearing Business.

4 In the cases of the Paragraphs 2 and 3, JSCC shall notify all Clearing Participants to that effect in advance.

Article 6. Notification to Other Clearing Participant or Other Customer

1 When JSCC receives from a Clearing Participant or a Customer any notification that is to be given to other Clearing Participant or other Customer in accordance with the Rules, such notification shall be deemed to have been received by JSCC on behalf of the Clearing Participant or Customer intended to receive such notification.

2 JSCC shall, by the method prescribed by JSCC¹⁸, take measures to let the Clearing Participant or the Customer know the existence of the declaration described in Paragraph 1 and the details thereof.

Article 7. Eligible Securities Collateral

1 The prices used to determine the value of Eligible Securities Collateral shall be specified by JSCC¹⁹; provided that JSCC may change such prices temporarily when JSCC deems it necessary for proper valuation, including without limitation in the event of a significant change to market price.

2 JSCC shall determine how the Eligible Securities Collateral shall be deposited and other necessary matters in respect of Eligible Securities Collateral.²⁰

Chapter 2 Clearing Participant

Section 1 Acquisition of IRS Clearing Qualification (Articles 8 – 12)

Article 8. Application for and Approval of IRS Clearing Qualification

1 A person listed below may apply to JSCC for an IRS Clearing Qualification according to the procedures as prescribed by JSCC²¹:

(1) Financial Instruments Business Operator registered to engage in the business in respect of the acts listed in Article 28.1.(2) of the Financial Instruments and Exchange Act; or

(2) Registered Financial Institution.

¹⁸ cf. Handling Procedures of IRS Clearing Business, Article 12.

¹⁹ cf. Handling Procedures of IRS Clearing Business, Article 13.1.

²⁰ Method of determination is specified in Handling Procedures, Article 13.2.

²¹ cf. Handling Procedures of IRS Clearing Business Article 14.

2 When an applicant (“Applicant”) files an application for IRS Clearing Qualification in accordance with Paragraph 1 and, as a result of the examination set forth in Article 9 below, JSCC deems that the Applicant is sufficiently qualified for sound operation of the Clearing Business, JSCC shall approve the Applicant’s IRS Clearing Qualification.

3 Notwithstanding the provisions of Paragraph 1, a Specified Successor Financial Institution (as defined in Article 126-34.3.(5) of the Deposit Insurance Act (Act No. 34 of 1971)) may apply to JSCC for an IRS Clearing Qualification according to the procedures as prescribed by JSCC. If such application is made, JSCC may grant IRS Clearing Qualification to such Applicant.

4 In the approval described in Paragraphs 2 and 3, the date of the IRS Clearing Qualification (referred to as the “Qualification Date” in this Section) shall be stated.

5 An Applicant intending to rely on a Parental Guarantee (referred to as “Guaranteed Applicant” in this Section) shall submit the documentation relating to such Parental Guarantee in the form prescribed by JSCC²² or, at JSCC’s discretion, a substitute form that is substantially the same, when filing the application for IRS Clearing Qualification in accordance with Paragraph 1.

Article 9. Requirements for IRS Clearing Qualification

1 An examination shall cover the below listed matters pertaining to Applicant, examination viewpoints that are prescribed by JSCC in a separate notification or a public notice and other related matters as deemed necessary by JSCC for the continued security of the IRS Clearing Business shall be conducted on examination review points and confirmation points:

(1) Management Structure

Applicant must have a sound management structure, including not being controlled or influenced by a person deemed inappropriate by JSCC from the viewpoint of the continued operation and good reputation of the IRS Clearing Business;

(2) Financial Basis

²² cf. Handling Procedures of IRS Clearing Business, Article 3, as well as Exhibit Form 1.

Depending upon the category into which Applicant falls, Applicant shall satisfy the requirements prescribed in a. or b. below and demonstrate adequate continuing financial stability from the Qualification Date:

a. Financial Instruments Business Operator:

- (a) Applicant's Net Capital is not less than USD 50 million (50,000,000) or JPY 5 billion (5,000,000,000), whichever is lower;
- (b) Applicant's Capital-to-Risk Ratio is more than 200% or 250% if JSCC deems it necessary in light of its creditworthiness;
- (c) If Applicant is a Special Financial Instrument Business Operator that has filed the notification prescribed in Article 57-5.2 of the Financial Instruments and Exchange Act ("Special Operator"), Applicant's Consolidated Capital-to-Risk Ratio is more than 200% or 250% if JSCC deems it necessary in light of Applicant's creditworthiness; and
- (d) Applicant is sufficiently creditworthy²³.

b. Registered Financial Institution:

- (a) Applicant's Net Capital is not less than USD 50 million (50,000,000) or JPY 5 billion (5,000,000,000), whichever is lower;
- (b) If Applicant is a Registered Financial Institution subject to Uniform International Standards, it must fulfil the conditions specified in (i) to (iii) below or, in the case of a foreign bank, equivalent conditions under the applicable laws and regulations in its country of incorporation:

²³ Sufficiency of creditworthiness will be judged based on criteria set by JSCC in a notification or a public notice. It is available at; <http://www.jsc.co.jp/en/data/en/2013/08/1Guidelines-Concerning-Credit-Standing-of-Clearing-Participants-etc.-in-IRS-Clearing-Business1.pdf>

- (i) Applicant's non-consolidated or consolidated Common Equity Tier 1 ratio (or non-consolidated or consolidated common investment Tier 1 ratio for an institution which operates with investments from its members) is more than 4.5% (or 5.625% if JSCC deems it necessary in light of its creditworthiness);
 - (ii) Applicant's non-consolidated or consolidated Tier 1 ratio is more than 6% (or 7.5% if JSCC deems it necessary in light of its creditworthiness); and
 - (iii) Applicant's non-consolidated or consolidated Total Capital ratio is more than 8% (or 10% if JSCC deems it necessary in light of its creditworthiness);
 - (c) If Applicant is a Registered Financial Institution other than those subject to Uniform International Standards, foreign banks and insurance companies ("Financial Institution subject to Japanese Standard"), its non-consolidated or consolidated capital adequacy ratio is more than 4% (or 5% if JSCC deems it necessary in light of its creditworthiness) under the Japanese Standard;
 - (d) If Applicant is an insurance company which is a Registered Financial Institution, its non-consolidated or consolidated Solvency Margin Ratio is more than 400% (or 500% if JSCC deems it necessary in light of its creditworthiness); and
 - (e) Applicant is sufficiently creditworthy²⁴.
- (3) Business Capability:

²⁴ Sufficiency of creditworthiness will be judged based on criteria set by JSCC in a notification or a public notice. It is available at; <http://www.jccc.co.jp/en/data/en/2013/08/1Guidelines-Concerning-Credit-Standing-of-Clearing-Participants-etc.-in-IRS-Clearing-Business1.pdf>

- a. Applicant has capability to settle Cleared Contracts, manage risk, comply with laws and regulations, sanctions imposed by administrative agencies in accordance with laws and regulations, and the Rules; and
- b. Applicant maintains a business capability which enables it to participate in the procedures for the liquidation of a defaulting Clearing Participant's Cleared Contracts. Applicant shall be deemed to fulfil this requirement if another person meeting the qualifications prescribed by JSCC²⁵ shall act on its behalf in the liquidation of such Cleared Contracts as prescribed by JSCC²⁶.

2 For a Guaranteed Applicant, an examination shall be conducted, depending upon the category into which the Guaranteed Applicant falls, in lieu of Paragraph 1.(2), to determine whether the Guaranteed Applicant satisfies the requirements prescribed in the below items and demonstrates adequate financial stability from the Qualification Date:

(1) Financial Instruments Business Operator

- a. The Net Capital of the Guaranteed Applicant is not less than USD 50 million (50,000,000) or JPY 5 billion (5,000,000,000), whichever is lower, and the Net Capital of its Parent Company providing Guaranteed Applicant's Parental Guarantee, or its equivalent if the Parent Company providing Parental Guarantee is neither a Financial Instruments Business Operator nor a Registered Financial Institution, is not less than USD 50 million (50,000,000) or JPY 5 billion (5,000,000,000), whichever is lower;
If the Parent Company providing the Guaranteed Applicant's Parental Guarantee also provides Parental Guarantee to one or more other Clearing Participants, the Parent Company's Net Capital must not be less than the amount obtained by multiplying USD 50 million (50,000,000) or JPY 5 billion (5,000,000,000), whichever is lower, by the number of the Clearing Participants guaranteed by that Parent Company

²⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 5-2.1.

²⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 5-2.2.

or, if the Parent Company itself is a Clearing Participant, the number of the guaranteed Clearing Participants plus one;

- b. The Guaranteed Applicant satisfies the requirements of Paragraph 1.(2).a.(b) and (c) or, Its Parent Company satisfies the requirements of Paragraph 1.(2).a.(b) and (c) or Paragraph 1.(2).b.(b) to (d), or equivalent requirements, if the Parent Company providing Parental Guarantee is neither a Financial Instruments Business Operators nor a Registered Financial Institution.

For this purpose, the satisfaction of the requirements related to creditworthiness shall be judged by reference to the creditworthiness of the Parent Company; and

- c. The Parent Company is sufficiently creditworthy.

(2) Registered Financial Institution

- a. Applicant's Net Capital is not less than USD 50 million (50,000,000) or JPY 5 billion (5,000,000,000), whichever is lower, and the Net Capital of its Parent Company providing Parental Guarantee, or its equivalent if the Parent Company providing Parental Guarantee is neither a Financial Instruments Business Operator nor a Registered Financial Institution, is not less than USD 50 million (50,000,000) or JPY 5 billion (5,000,000,000), whichever is lower;
If a Parent Company provides Parental Guarantee to one or more other Clearing Participants, the Parent Company's Net Capital must not be less than the amount obtained by multiplying USD 50 million (50,000,000) or JPY 5 billion (5,000,000,000), whichever is lower, by the number of the Clearing Participants guaranteed by that Parent Company or, if the Parent Company itself is a Clearing Participant, the number of the guaranteed Clearing Participants plus one;
- b. Guaranteed Applicant satisfies the requirements of Paragraph 1.(2).b.(b), or,

Its Parent Company providing Parental Guarantee satisfies the requirements of Paragraph 1.(2).a.(b) and (c) or Paragraph 1.(2).b.(b) to (d) of, or equivalent requirements if the Parent Company providing Parental Guarantee is neither a Financial Instruments Business Operator nor a Registered Financial Institution.

For this purpose, the satisfaction of the requirements related to creditworthiness shall be judged by reference to the creditworthiness of the Parent Company; and

- c. The Parent Company must be sufficiently creditworthy.

3 Any changes and other necessary matters in relation to the outsourcing set forth in Article 9.1.(3).b. shall be prescribed by JSCC²⁷.

Article 10. Completion of IRS Clearing Qualification Application

1 When JSCC has approved an Applicant's IRS Clearing Qualification pursuant to the provisions of Article 8.2, the Applicant shall deposit IRS Clearing Funds and follow the other procedures as required by JSCC²⁸ on or before the JSCC Business Day immediately preceding the Qualification Date.

2 When the Applicant described in Paragraph 1 fails to complete the procedures prescribed in Paragraph 1 on or before the JSCC Business Day immediately preceding the Qualification Date, its application for IRS Clearing Qualification shall be deemed to have been withdrawn.

3 When JSCC grants IRS Clearing Qualification pursuant to Article 8.3, the Applicant shall deposit IRS Clearing Funds and follow other procedures as required by JSCC on or before the date designated by JSCC.

Article 11. Execution of Clearing Participant Agreement

²⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 5-3.

²⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 15

The Applicant prescribed in Article 10.1 or 10.3 shall enter into the Clearing Participant Agreement with JSCC in the form prescribed by JSCC²⁹ on or before the Qualification Date.

Article 12. Date of IRS Clearing Qualification

1 When an Applicant has completed the procedures set forth in Article 10.1 or those procedures set forth in Article 10.3 and entered into the Clearing Participant Agreement pursuant to Article 11, JSCC shall grant the IRS Clearing Qualification to the Applicant on the Qualification Date. When the Applicant is granted the IRS Clearing Qualification pursuant to Article 10.3, the provisions of this paragraph shall apply only for the procedures which JSCC requires the Applicant to follow by the Qualification Date.

2 When JSCC grants the IRS Clearing Qualification to Applicant in accordance with Paragraph 1, JSCC shall promptly notify other Clearing Participants and make a public announcement to that effect.

Section 2 Client Clearing Authorization (Articles 12-2)

Article 12-2. Client Clearing Authorization

1 When a Clearing Participant or an Applicant intends to undertake Client Clearing, it must apply to JSCC through the application procedures prescribed by JSCC³⁰ and obtain an authorization from JSCC in advance.

2 Upon receipt of the application set forth in Paragraph 1, JSCC shall determine whether the applicant has the capability to settle Cleared Contracts, manage risk and avoid conflicts of interest related to Client Clearing by checking points separately prescribed by JSCC in a notification or a public notice. JSCC shall give an authorization to handle Client Clearing if it determines that such Clearing Participant has the requisite business capability.

²⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 6, as well as Exhibit Form 2.

³⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 15-2.

3 Notwithstanding the provisions of Paragraph 2, when a Specified Successor Financial Institution applies for the authorization under Paragraph 1, JSCC may grant the authorization to handle Client Clearing to such Applicant.

4 If JSCC grants the authorization set forth in Paragraphs 2 and 3, it shall promptly notify other Clearing Participants and make a public announcement to that effect.

Section 3 Obligations of Clearing Participants (Articles 13 – 21)

Article 13. Clearing Participant Representative

1 A Clearing Participant shall designate its representative director or representative executive officer³¹, or in case of a foreign Clearing Participant its representative in Japan, as its IRS Clearing Business representative and notify JSCC of such designation in advance in the manner prescribed by JSCC³².

2 Only the Clearing Participant representative of whom JSCC is so notified may represent the Clearing Participant to JSCC; provided, however, that for routine operations, a Clearing Participant may register a person(s) to act within a limited scope defined by said Clearing Participant in advance.

Article 14. Person in Charge of Settlement Operation

A Clearing Participant shall appoint a person in charge of supervising the settlement of Cleared Contracts from among its Officers and employees, and notify JSCC of such person pursuant to the Subordinate Rules³³.

Article 15. Control or Influence by Officers or Other Persons

1 When JSCC regards an Officer or other person as having Control or Influence over a Clearing Participant that is inappropriate for a sound operation of Clearing Business from JSCC's perspective, following consultation with the Clearing Participant, JSCC may request changes to the relationship by providing the Clearing Participant with an explanation of its view; provided, however, that the Clearing Participant may submit a written statement in lieu of such consultation.

³¹ The officer who represents a company under the Companies Act of Japan.

³² *cf.* Handling Procedures of IRS Clearing Business, Article 16.

³³ *cf.* Handling Procedures of IRS Clearing Business, Article 16.

2 The procedures for the consultation described in Paragraph 1 shall be separately prescribed by JSCC³⁴.

3 When the Clearing Participant refuses to respond to the consultation described in Paragraph 1 without justifiable grounds, JSCC may request changes prescribed in Paragraph 1 without consultation.

4 When the Clearing Participant considers that the request for changes as set forth in Paragraph 1 is unreasonable, the Clearing Participant may raise an objection in writing to JSCC by presenting the reason therefor within 10 days after the receipt of the notice of the request for changes.

5 Upon receipt of the objection set forth in Paragraph 4, JSCC shall convene a board meeting as soon as possible.

6 If at the board meeting held in accordance with the provisions of Paragraph 5, it is considered appropriate to modify or withdraw the request for changes set forth in Paragraph 1, said request for changes shall be immediately modified or withdrawn.

Article 16. Payment of Fees by Clearing Participant

A Clearing Participant shall pay the fees prescribed in the Subordinate Rules³⁵ to JSCC pursuant to such Subordinate Rules.

Article 17. Deposit of IRS Clearing Fund

1 A Clearing Participant shall deposit its IRS Clearing Fund with JSCC pursuant to the Subordinate Rules³⁶ in order to secure any and all obligations owed by such Clearing Participant to JSCC in respect of the IRS Clearing Business, including the obligations to be borne by such Clearing Participant to recover losses incurred by JSCC due to a Default of one or more other Clearing Participants and the losses arising upon such Default in relation to claims and obligations which come into

³⁴ cf. Handling Procedures of IRS Clearing Business, Article 17.

³⁵ Rules on Fees for IRS Clearing Business.

³⁶ Rules on Required IRS Clearing Fund. For method of deposit, see also Handling Procedures of IRS Clearing Business, Article 18.

existence between JSCC and the Clearing Participant pursuant to the provisions of Article 84-5.1.

2 When the deposited balance of the IRS Clearing Fund, or, if all or a part of the deposited IRS Clearing Fund has been used to recover losses incurred by JSCC in accordance with the Rules following the Default of another Clearing Participant, the balance of the IRS Clearing Fund remaining thereafter is less than the required amount of such IRS Clearing Fund prescribed in the Subordinate Rules³⁷ (“Required IRS Clearing Fund”), the Clearing Participant shall deposit with JSCC an amount at least equal to such shortfall by 2:00 p.m. on the JSCC Business Day immediately following the day on which such shortfall occurs.

3 When the deposited balance of the IRS Clearing Fund, or, if all or a part of the deposited IRS Clearing Fund has been used to recover losses incurred by JSCC in accordance with the Rules upon a Default of another Clearing Participant, the deposited balance of the IRS Clearing Fund remaining thereafter, exceeds the Required IRS Clearing Fund, the Clearing Participant may claim the return of an amount up to the excess amount.

4 JSCC may apply the IRS Clearing Fund, remaining after deducting costs required for conversion of Cash into another currency and after the payment of cost of a liquidation of Eligible Securities Collateral, to the performance of the obligations set forth in Paragraph 1 hereof in accordance with the Rules

5 Deposits of IRS Clearing Fund shall be deemed to be deposits for consumption (*shohi kitaku*) for collateral purpose in the case of the IRS Clearing Fund in the form of Cash; and loans for consumption (*shohi taishaku*) free of charge for collateral purpose in the case of the IRS Clearing Fund in the form of Eligible Securities Collateral.

6 Notwithstanding the provisions of the Civil Code (Act No. 89 of 1986) and the Commercial Code (Act No. 48 of 1899), a Clearing Participant may request return of the IRS Clearing Fund or make any other request only as prescribed in the Rules

Article 18. Limits of Liability

³⁷ Rules on Required IRS Clearing Fund, Article 2.

JSCC shall not be liable to indemnify a Clearing Participant or a Customer for damages suffered by it in the course of its business operation in relation to JSCC's IRS Clearing Business, other than damages caused by a failure to perform obligations arising from Cleared Contracts and other damages separately prescribed by JSCC³⁸, unless there is wilful misconduct or gross negligence on the part of JSCC.

Article 19. Notifiable Matters

When a Clearing Participant or its Parent Company providing a Parental Guarantee to said Clearing Participant intends to carry out any of the following actions, the Clearing Participant shall notify JSCC in advance pursuant to the Subordinate Rules³⁹, provided that if prior notification is impracticable or extremely difficult for legal, regulatory or other reasons, such notification shall be submitted promptly following the action:

- (1) Discontinuance of its business, which is in the case of a Financial Instruments Business Operator, the business set forth in Article 28.1.(2) of the Financial Instruments and Exchange Act; and in the case of a Registered Financial Institution, is the business which required registration under the Financial Instruments and Exchange Act;
- (2) A merger in which the Clearing Participant is merged into another company and ceases to exist, or a merger in which the Clearing Participant merges with another company and establishes a new company;
- (3) Dissolution of the Clearing Participant for any reason other than merger or decision to commence bankruptcy proceedings;
- (4) Succession of all or a part of the business of the Clearing Participant to another company due to a demerger, only if such demerger involves the businesses related to IRS Transactions: the same shall apply in this Article 19, Article 24, Article 27-4, Article 28.7, Article 40, Article 40-2, Article 40-3 and Article 40-4;
- (5) Transfer of all or a part of its business;

³⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 19.

³⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 16.

- (6) A merger in which the Clearing Participant becomes a surviving company but only if such a merger involves the businesses related to IRS Transactions;
- (7) Succession of all or a part of the business from another company resulting from a demerger;
- (8) Acquisition of all or a part of business;
- (9) Change in the trading name or company name, including changes to the trading name or company name in English; and
- (10) Change of address of its headquarters or principal office.

Article 20. Matters to be Reported

When any other events relating to Clearing Participants and prescribed by JSCC⁴⁰ occur, the Clearing Participant shall immediately report the details thereof to JSCC.

Article 21. Inspection of Clearing Participant

1 To the extent that JSCC considers necessary for the continued operation of the IRS Clearing Business considering the impact of the below listed items relating to a Clearing Participant on IRS Clearing Business and other factors, JSCC may request that the Clearing Participant file a report or submit documents to which JSCC may refer in order to gain an understanding of the status of the business or assets of the Clearing Participant or guaranteed Clearing Participant's Parent Company providing Parental Guarantee, or may have its employees inspect the Clearing Participant's business, assets, books, documents, or other evidences:

- (1) Status of a Clearing Participant's compliance with the Rules;
- (2) Financial conditions of a Clearing Participant; and
- (3) Certainty of the performance of the Clearing Participant's obligations owed to JSCC.

⁴⁰ cf. Handling Procedures of IRS Clearing Business, Article 20.

For the purpose of Items (2) and (3) above, the reference to the Clearing Participant shall include a Parent Company providing a Parental Guarantee, if any.

2 Matters necessary for the inspection set forth in Paragraph 1 shall be prescribed in the Subordinate Rules⁴¹.

Section 4 Voluntary Renunciation of IRS Clearing Qualification (Article 22 – 27)

Article 22. Application to Renounce IRS Clearing Qualification

1 In order to renounce its IRS Clearing Qualification, a Clearing Participant shall advise JSCC of the intended renunciation in the manner prescribed by JSCC⁴².

2 When JSCC receives the advice pursuant to Paragraph 1, JSCC shall notify other Clearing Participants and promptly make a public announcement to that effect.

Article 23. Renunciation of IRS Clearing Qualification

1 If a Clearing Participant advises JSCC of its intention to renounce its IRS Clearing Qualification pursuant to Article 22.1, such renunciation shall become effective at the later of the time designated by JSCC⁴³ on the 30th day after such advice and the time by which all outstanding Cleared Contracts to which such Clearing Participant is a party have been cancelled; provided that if the advice of intent to renounce its IRS Clearing Qualification is in the course of a Default Settlement Period or a Default Settlement Period commences during the period between the date of such advice and the date of renunciation of the IRS Clearing Qualification that would otherwise become effective, such renunciation shall become effective at the later of the time designated by JSCC on the last day of the Default Settlement Period and the time by which all outstanding Cleared Contracts to which such Clearing Participant is a party have been cancelled.

2 When a Clearing Participant renounces its IRS Clearing Qualification pursuant to the provisions of Paragraph 1, JSCC shall notify other Clearing Participants and make a public announcement of such renunciation.

⁴¹ *cf.* Rules on Inspection of Clearing Participant in relation to IRS Clearing Business.

⁴² *cf.* Handling Procedures of IRS Clearing Business, Article 21.

⁴³ *cf.* Handling Procedures of IRS Clearing Business, Article 22.

Article 24. Special Provisions for Merger of Clearing Participant Renouncing IRS Clearing Qualification

Notwithstanding the provisions of Article 23.1, in a case where JSCC deems it unnecessary for the Clearing Participant requesting renunciation of its IRS Clearing Qualification to cancel all outstanding Cleared Contracts, or in the case of a Clearing Broker, for the Clearing Broker to terminate all the relevant Clearing Brokerage Agreements, the renunciation of the IRS Clearing Qualification shall become effective as of such time as designated by JSCC. Such cases include where simultaneously with the renunciation of IRS Clearing Qualification, such Clearing Participant is merged into, through a demerger causes its business to be succeeded to by, or transfer its business to, another company that is to acquire or has already acquired an IRS Clearing Qualification.

Article 25. Return of IRS Clearing Fund upon Renunciation of IRS Clearing Qualification

Upon a renunciation or a revocation of a Clearing Participant's IRS Clearing Qualification, JSCC shall return its IRS Clearing Fund without delay; provided, however, that if and to the extent that there remain any obligations owed by such Clearing Participant to JSCC as a result of the IRS Clearing Business or otherwise JSCC considers it necessary to use the IRS Clearing Fund pursuant to the Rules, JSCC may retain the IRS Clearing Fund to the extent necessary.

Article 26. Performance of Obligation upon Renunciation of IRS Clearing Qualification

1 Upon a renunciation or a revocation of its IRS Clearing Qualification, the person whose IRS Clearing Qualification is so renounced shall use the Cash and securities, of which it has the right to claim a return by JSCC in relation to JSCC's IRS Clearing Business, to satisfy all of its outstanding obligations to JSCC as Clearing Participant.

2 If the Cash and securities referred to in Paragraph 1 are insufficient to satisfy all of the outstanding obligations described in Paragraph 1, such person shall satisfy the outstanding obligations in their entirety by the date specified by JSCC which shall be determined on a case-by-case basis.

Article 27. Application of the Rules in Case of Renunciation of IRS Clearing Qualification

If any claim or obligation arises due to any cause prior to the renunciation of IRS Clearing Qualification of a Clearing Participant, the Rules shall remain effective with regard to such claim or obligation.

Section 5 Discontinuance of Handling Client Clearing by a Clearing Participant (Articles 27-2 – 27-5)

Article 27-2. Request for Cancellation of Client Clearing Authorization

If a Clearing Participant intends to discontinue Client Clearing, it must request cancellation of its authorization to handle Client Clearing through the procedures separately prescribed by JSCC⁴⁴.

Article 27-3. Handling of Outstanding Contracts of Clearing Participant Requesting Cancellation of Client Clearing Authorization

When a Clearing Participant requests cancellation of its authorization to handle Client Clearing, it must close all outstanding Customer's Cleared Contracts by Position Transfer of Customer's Cleared Contracts pursuant to the provisions of Chapter 4, Section 4, or otherwise, and terminate all Clearing Brokerage Agreements, in advance.

Article 27-4. Special Provisions for Merger of Clearing Participant Requesting Cancellation of Authorization to Handle Client Clearing

Notwithstanding the provisions of Article 27-3, in the cases JSCC deems it unnecessary, the Clearing Participant requesting cancellation of the authorization to handle Client Clearing will not be required to close all outstanding Customer's Cleared Contracts, or to terminate all of its Clearing Brokerage Agreements. Such cases include where simultaneously with the cancellation of the authorization to handle Client Clearing, such Clearing Participant is merged into, through a demerger causes its business to be succeeded to by, or transfer its business to, another company that is to acquire or has already acquired the authorization to handle Client Clearing.

Article 27-5. Cancellation of Client Clearing Authorization

When JSCC approves the cancellation of the authorization to handle Client Clearing, it will promptly notify other Clearing Participants and make a public announcement to that effect.

⁴⁴ cf. Handling Procedures of IRS Clearing Business, Article 22-2.

Section 5-2 Notification concerning Eligible IRS Transactions Denominated in Currency other than Japanese Yen (Article 27-6)

Article 27-6. Notification concerning Eligible IRS Transactions Denominated in Currency other than Japanese Yen

When a Clearing Participant intends to apply for Clearing of Eligible IRS Transactions whose Notional Amount is denominated in, and settlement currency is, any currency other than Japanese yen for the first time, it must notify, in advance, the denomination currency of the Notional Amount of, and the settlement currency of, the Eligible IRS Transaction for which it intends to apply for Clearing.

Section 5-3 Notification concerning Exchange of Mark-to-Market Difference And Adjustment Amount (Article 27-7)

Article 27-7. Notification concerning Exchange of Mark-to-Market Difference And Adjustment Amount

When a Clearing Participant intends to apply for exchanging Mark-to-Market Difference And Adjustment Amount for Cleared Contracts pursuant to the Rules for the first time, it must notify, in advance, such effect to JSCC in the manner prescribed by JSCC⁴⁵.

Section 6 Actions against Clearing Participants (Articles 28 – 39)

Article 28. Actions against Clearing Participant

1 If a Clearing Participant or its Parent Company providing a Parent Guarantee, if any, is subject to any of the below listed events and where JSCC deems it necessary in order to protect the IRS Clearing Business taking into account the cause, likelihood of recurrence, impact on the IRS Clearing Business and other factors, JSCC may at its discretion, following consultation with the Clearing Participant, (a) instruct such Clearing Participant to make improvements to its business and procedures, to the extent deemed necessary and appropriate by JSCC (“Instruction to Improve”), (b) suspend Clearing for the Clearing Participant entirely or in part, (c) suspend acceptance of cross margining by the Clearing Participant (“Suspension of Cross Margining” or “Suspend Cross Margining”), (d) revoke the Clearing Participant’s IRS Clearing Qualification, or (e) cancel the authorization to handle Client Clearing,

⁴⁵ cf. Handling Procedures of IRS Clearing Business, Article 16.

providing the reason for such action; provided that a revocation of the IRS Clearing Qualification requires a resolution of the board of directors of JSCC:

- (1) When the Clearing Participant fails to submit the notification prescribed in Article 19 or the report prescribed in Article 20, or submits any false notification or report;
- (2) When the Clearing Participant refuses, obstructs or evades inspection as prescribed in Article 21, or fails to submit the report or documents required to be submitted under Article 21 or submits any false report or document;
- (3) When its business capability is deemed to be inadequate; or
- (4) Otherwise, when the Clearing Participant violates the Rules or fails to comply with actions taken by JSCC in accordance therewith, or when the Clearing Participant damages the reputation of JSCC or the Clearing Participants, and JSCC deems it necessary to take such action to protect the continued operation of the IRS Clearing Business.

2 If JSCC considers that a Clearing Participant is subject to any of the below listed events, and where JSCC deems it necessary taking into account the cause, likelihood of recurrence, impact on the IRS Clearing Business and other factors, JSCC may, following consultation with the Clearing Participant, (a) suspend Clearing entirely or in part or (b) take such other action as JSCC deems necessary and appropriate:

- (1) When the Clearing Participant rejects a request for change with respect to Officers or other persons controlling or influencing the Clearing Participant in accordance with Article 15;
- (2) When a majority of the voting rights of shareholders, partners, members, union members, or equity holders, or in the case of a company limited by shares⁴⁶, the voting rights attached to shares excluding the voting rights that may only be exercised with respect to limited matters to be resolved at general meetings of shareholders, but including the voting rights attached to shares which are deemed to have voting rights pursuant to Article 879.3 of the Companies Act

⁴⁶ *Kabushiki Kaisha* under the Companies Act.

(Act No. 86 of 2005) are held by persons who are considered to be inappropriate to hold such voting rights for the continued good operation of the IRS Clearing Business; or

- (3) When any person holding the same or a greater control over the Clearing Participant than that held by a director or an executive officer is considered inappropriate for the continued good operation of the IRS Clearing Business, regardless of title, whether referred to as a consultant, advisor or otherwise.

3 If JSCC determines that a Clearing Participant is subject to any of the below listed events, JSCC may, following consultation with the Clearing Participant, (a) suspend Clearing for the Clearing Participant entirely or in part until such event ceases to exist, or (b) revoke the Clearing Participant's IRS Clearing Qualification, providing the reason for such action; provided that a revocation of the IRS Clearing Qualification requires a resolution of the board of directors of JSCC:

- (1) Where the Clearing Participant has no Parental Guarantee:
 - a. If the Clearing Participant is a Financial Instruments Business Operator, when its Capital-to-Risk Ratio becomes, or, in the case of a Special Operator its Capital-to-Risk Ratio and Consolidated Capital-to-Risk Ratio become, less than 250%, and JSCC determines that its creditworthiness is likely to worsen significantly;
 - b. If the Clearing Participant is a Registered Financial Institution subject to Uniform International Standard.:
 - (a) when its non-consolidated or consolidated Common Equity Tier 1 ratio becomes less than 5.625%;
 - (b) when its non-consolidated or consolidated Tier 1 ratio becomes less than 7.5%; or
 - (c) when its non-consolidated or consolidated Total Capital ratio becomes less than 10%;

and when JSCC determines that its creditworthiness is likely to worsen significantly (or, in the case of a foreign bank, when any similar event occurs);

If the Clearing Participant is a Registered Financial Institution subject to Japanese Standard, when its non-consolidated or consolidated capital adequacy ratio under the Japanese Standard becomes less than 5% and JSCC determines that its creditworthiness is likely to worsen significantly;

- c. If the Clearing Participant is an insurance company which is a Registered Financial Institution, when its non-consolidated or consolidated Solvency Margin Ratio becomes less than 500%, and when JSCC determines that its creditworthiness is likely to worsen significantly; or
- d. When JSCC determines that the Clearing Participant's creditworthiness has worsened significantly⁴⁷.

(2) Where the Clearing Participant has Parental Guarantee from its Parent Company:

- a. If the Clearing Participant is a Financial Instruments Business Operator, when the Clearing Participant's Capital-to-Risk Ratio becomes, or, in the case of a Special Operator its Capital-to-Risk Ratio and Consolidated Capital-to-Risk Ratio become, less than 250%, its Parent Company is subject to the declining creditworthiness defined in Paragraph 4 below, and JSCC considers that the creditworthiness of the Parent Company is likely to worsen significantly;
- b. If the Clearing Participant is a Registered Financial Institution subject to Uniform International Standard:

⁴⁷ Deterioration of creditworthiness will be judged based on criteria set by JSCC in a notification or a public notice. It is available at;
<http://www.jssc.co.jp/en/data/en/2013/08/1Guidelines-Concerning-Credit-Standing-of-Clearing-Participants-etc.-in-IRS-Clearing-Business1.pdf>

- (a) when its non-consolidated or consolidated Common Equity Tier 1 ratio becomes less than 5.625%; or
- (b) when its non-consolidated or consolidated Tier 1 ratio becomes less than 7.5%; or
- (c) when its non-consolidated or consolidated Total Capital ratio becomes less than 10%;

and its Parent Company is subject to the declining creditworthiness defined in Paragraph 4 below, and JSCC considers that the creditworthiness of the Parent Company is likely to worsen significantly, or, in the case of a foreign bank, when any similar event occurs:

If the Clearing Participant is a Registered Financial Institution subject to Japanese Standard, when its non-consolidated or consolidated capital adequacy ratio under the Japanese Standard becomes less than 5% and its Parent Company is subject to the declining creditworthiness defined in Paragraph 4 below, and JSCC considers that the creditworthiness of the Parent Company is likely to worsen significantly;

- c. If the Clearing Participant is an insurance company which is a Registered Financial Institution, when its non-consolidated or consolidated Solvency Margin Ratio becomes less than 500% and its Parent Company is subject to the declining creditworthiness defined in Paragraph 4 below, and JSCC considers that the creditworthiness of the Parent Company is likely to worsen significantly; or
- d. When JSCC determines that the creditworthiness of its Parent Company has worsened significantly⁴⁸.

⁴⁸ Deterioration of creditworthiness will be judged based on criteria set by JSCC in a notification or a public notice. It is available at;
<http://www.jsc.co.jp/en/data/en/2013/08/1Guidelines-Concerning-Credit-Standing-of-Clearing-Participants-etc.-in-IRS-Clearing-Business1.pdf>

4 The “declining creditworthiness” of a Parent Company as set forth in Paragraph 3.(2) shall be, depending upon the category into which the Parent Company falls, the event set forth below:

- (1) If a Parent Company is a Financial Instruments Business Operator:
When its Capital-to-Risk Ratio becomes, or, in the case of a Special Operator its Capital-to-Risk Ratio and Consolidated Capital-to-Risk Ratio become, less than 250%.
- (2) If a Parent Company is a Registered Financial Institution subject to Uniform International Standard:
 - a. when its non-consolidated or consolidated Common Equity Tier 1 ratio becomes less than 5.625%;or
 - b. when its non-consolidated or consolidated Tier 1 ratio becomes less than 7.5%; or
 - c. when its non-consolidated or consolidated Total Capital ratio becomes less than 10%;

or, in the case of a foreign bank, when an equivalent event occurs.

- (3) If a Parent Company is a Registered Financial Institution subject to Japanese Standard, when its non-consolidated or consolidated capital adequacy ratio under the Japanese Standard becomes less than 5%.
- (4) If a Parent Company is an insurance company which is a Registered Financial Institution:
When its non-consolidated or consolidated Solvency Margin Ratio becomes less than 500%.
- (5) For a Parent Company other than above:
When any equivalent event occurs on the part of such Parent Company

5 When JSCC determines that, according to the below listed classifications, a Clearing Participant is subject to any of the below listed events, JSCC may, following consultation with the Clearing Participant, suspend Clearing entirely or in part, until such event ceases to exist:

(1) Where the Clearing Participant has no Parental Guarantee:

- a. When the Clearing Participant's Net Capital becomes less than USD 50 million (50,000,000) or JPY 5 billion (5,000,000,000), whichever is lower, and prompt recovery from such condition cannot be expected;
- b. If the Clearing Participant is a Financial Instruments Business Operator, when its Capital-to-Risk Ratio becomes less than 200% and prompt recovery from such condition cannot be expected;
- c. If the Clearing Participant is a Special Operator, when its Consolidated Capital-to-Risk Ratio becomes less than 200% and prompt recovery from such condition cannot be expected;
- d. If the Clearing Participant is a Registered Financial Institution subject to Uniform International Standard:
 - (a) when its non-consolidated or consolidated Common Equity Tier 1 ratio becomes less than 4.5% and prompt recovery from such condition cannot be expected; or
 - (b) when its non-consolidated or consolidated Tier 1 ratio becomes less than 6% and prompt recovery from such condition cannot be expected; or
 - (c) when its non-consolidated or consolidated Total Capital ratio becomes less than 8% and prompt recovery from such condition cannot be expected;

or, in the case of a foreign bank, when any equivalent event occurs.

- e. If the Clearing Participant is a Registered Financial Institution subject to Japanese Standard, when its non-consolidated or consolidated capital adequacy ratio under the Japanese Standard becomes less than 4%, and prompt recovery from such condition cannot be expected; and
 - f. If the Clearing Participant is an insurance company, when its non-consolidated or consolidated Solvency Margin Ratio becomes less than 400% and prompt recovery from such condition cannot be expected.
- (2) Where the Clearing Participant has Parental Guarantee:
- a. When the Clearing Participant's Net Capital becomes less than USD 50 million (50,000,000) or JPY 5 billion (5,000,000,000), whichever is lower, and prompt recovery from such condition cannot be expected; or
 - b. When the Net Capital of the Clearing Participant's Parent Company, or, if such Parent Company is neither a Financial Instruments Business Operator nor a Registered Financial Institution, the amount equivalent thereto, becomes less than USD 50 million (50,000,000) or JPY 5 billion (5,000,000,000), whichever is lower; or, if the Parent Company provides Parental Guarantee to one or more other Clearing Participants, the Net Capital or its equivalent becomes less than the amount equal to the product of USD 50 million (50,000,000) or JPY 5 billion (5,000,000,000), whichever is lower, and the number of the Clearing Participants guaranteed by that Parent Company, or, if the Parent Company itself is a Clearing Participant, the number of the guaranteed Clearing Participants plus one; and prompt recovery from such condition cannot be expected; or
 - c. If the Clearing Participant is a Financial Instruments Business Operator, when any of the events set forth in b. or c. of Item (1) occurs and at the same time its Parent Company is subject to the declining creditworthiness as defined in Paragraph 6 below, and prompt recovery from such condition cannot be expected; and

- d. If the Clearing Participant is a Registered Financial Institution, when any of the events set forth in Item (1). d. to f. occurs and at the same time its Parent Company is subject to the declining creditworthiness as defined in Paragraph 6 below, and prompt recovery from such condition cannot be expected.

6 The “declining creditworthiness” of a Parent Company as set forth in Paragraph 5.(c).c. and d. shall be, depending upon the category into which the Parent Company falls, the event set forth below:

- (1) If the Parent Company is a Financial Instruments Business Operator:
When its Capital-to-Risk Ratio becomes, or, in the case of a Special Operator, its Capital-to-Risk Ratio and Consolidated Capital-to-Risk Ratio become, less than 200%.
- (2) If the Parent Company is a Registered Financial Institution subject to Uniform International Standard:
 - a. when its non-consolidated or consolidated Common Equity Tier 1 ratio becomes less than 4.5%;or
 - b. when its non-consolidated or consolidated Tier 1 ratio becomes less than 6%; or
 - c. when its non-consolidated or consolidated Total Capital ratio becomes less than 8%;or, in the case of a foreign bank, when any equivalent event occurs.
- (3) If the Parent Company is a Registered Financial Institution subject to Japanese Standard:
When its non-consolidated or consolidated capital adequacy ratio under the Japanese Standard becomes less than 4%.
- (4) If the Parent Company is an insurance company that is a Registered Financial Institution:

When its non-consolidated or consolidated Solvency Margin Ratio becomes less than 400%.

(5) For Parent Company other than above:

When any equivalent event occurs on the part of such Parent Company

7 In the event that a Clearing Participant gave a notification to JSCC under Article 19.(1) or made a public announcement under any of Article 19. (2) through (5), and does not advise the renunciation of its IRS Clearing Qualification, JSCC may, following consultation with the Clearing Participant, suspend Clearing entirely or in part.

If such public announcement is made under Article 19.(4), this provision shall apply only when such succession occurs in respect of the entire business, and if such public announcement is made under Article 19.(5), this provision shall apply only when the Clearing Participant transfers the entire business.

Article 29. Increase in Required Initial Margin where Risk is High

1 A Clearing Participant shall manage its Cleared Contracts giving due consideration to its IRS Transaction portfolio, its creditworthiness, its Customers' creditworthiness and other factors in order to avoid JSCC or other Clearing Participants suffering any loss.

2 In the event that the risk, as measured by JSCC⁴⁹, posed by Cleared Contracts held in a Proprietary Account or a Customer Account becomes greater than the threshold set by JSCC⁵⁰, JSCC may increase the Required Initial Margin for such Clearing Participant in the manner prescribed by JSCC⁵¹.

Article 29-2. Limiting Risk by Account

1 In the event that the Required Initial Margin for the Proprietary Account or a Customer Account of a Clearing Participant exceeds 50% of the Net Capital of said Clearing Participant, JSCC may increase the Required Initial Margin for said Clearing Participant in the manner separately prescribed by JSCC⁵².

⁴⁹ cf. Handling Procedures of IRS Clearing Business, Article 23.1.

⁵⁰ cf. Handling Procedures of IRS Clearing Business, Article 23.1.

⁵¹ cf. Handling Procedures of IRS Clearing Business, Article 23.2.

⁵² cf. Handling Procedures of IRS Clearing Business, Article 23-2.

In this Article 29-2 and Article 29-3 below, if the Clearing Participant is subject to a Parental Guarantee, "Net Capital" shall mean the Net Capital of its Parent Company providing the Parental Guarantee, and if its Parent Company is neither a Financial Instruments Business Operator nor a Registered Financial Institution, shall be an equivalent appropriate to that type of Parent Company.

2 In the event that the Required Initial Margin for the Proprietary Account or a Customer Account of a Clearing Participant exceeds 100% of the Net Capital of said Clearing Participant, JSCC may, following consultation with the Clearing Participant, suspend Clearing of additional Clearing Contracts for that account entirely or in part, and, subject to a resolution of the board of directors of JSCC, may instruct said Clearing Participant to take actions to manage the risk of the account.

3 The Clearing Participant in receipt of the instruction as set forth in Paragraph 2 shall improve its capital adequacy ratio or take such other measures which may include those relating to Cross Margined JGB Futures Cleared Contracts and Cross Margined Interest Rate Futures Cleared Contracts and requesting that a Customer take necessary measures, in order to manage risks of the cleared positions in the account, on or before the deadline date set by JSCC for each occurrence.

4 In addition to the matters prescribed in these Business Rules, any matter that becomes necessary in connection with the instructions to manage risk shall be set by JSCC.

Article 29-3. Actions that may be taken to Limit Risk depending on Net Capital

1 In the event that, with respect to each classification of accounts listed in the below items, the aggregate of the Required Initial Margins exceeds the threshold prescribed in the respective item, JSCC may, following consultation with the Clearing Participant, suspend Clearing for the Clearing Participant entirely or in part, and, subject to a resolution of the board of directors of JSCC, may instruct such Clearing Participant to manage the risk of its positions.

- (1) Proprietary Account of a Clearing Participant and Customer Accounts established for the Customers in the same Corporate Group as the relevant Clearing Participant:

200% of the Net Capital of said Clearing Participant;

- (2) Proprietary Account and all Customer Accounts of a Clearing Participant:
400% of the Net Capital of said Clearing Participant.

2 The provisions of Article 29-2.3 and 4 shall apply *mutatis mutandis* when JSCC instructs the Clearing Participant to manage risks in its position as prescribed in Paragraph 1.

Article 30. Instruction to Manage Risk

1 In the event and to the extent that JSCC deems it necessary due to concerns that a Clearing Participant may not be able to meet its obligations to JSCC, JSCC, following consultation with the Clearing Participant, may suspend Clearing for the Clearing Participant entirely or in part, or, subject to a resolution of the board of directors of JSCC, may instruct such Clearing Participant to manage the risk of its positions.

2 The Clearing Participant in receipt of the instruction set forth in Paragraph 1 shall take necessary measures, which may include those related to Cross Margined JGB Futures Cleared Contracts and Cross Margined Interest Rate Futures Cleared Contracts, in order to manage risks of its Cleared Contracts on or before the deadline date set by JSCC on each occurrence.

3 In addition to the matters prescribed in these Business Rules, any matter that becomes necessary in connection with the instructions to manage risk shall be set by JSCC.

Article 31. Actions that may be taken in respect of Eligible Securities Collateral

If JSCC deems it necessary in order to ensure a Clearing Participant's continued performance of its obligations with respect to its Cleared Contracts or Clearing Brokerage Contracts and obligations arising in connection with the Cross Margined JGB Futures Cleared Contracts and Cross Margined Interest Rate Futures Cleared Contracts related to such Clearing Participant upon JSCC's determination of the Clearing Participant Default, taking into consideration the creditworthiness of a Clearing Participant, and to the extent necessary, JSCC may increase the haircut applied to the valuation of Eligible Securities Collateral.

Article 32. Increasing Clearing Participant Required Initial Margin Due to its Creditworthiness

1 When JSCC considers that a Clearing Participant meets any of the below listed criteria, JSCC may increase the Required Initial Margin for the Clearing Participant's Proprietary Cleared Contracts in the manner prescribed by JSCC⁵³:

- (1) Where the Clearing Participant does not have a Parental Guarantee:
 - a. If the Clearing Participant is a Financial Instruments Business Operator, when its Capital-to-Risk Ratio, or in the case of a Special Operator, its Capital-to-Risk Ratio and Consolidated Capital-to-Risk Ratio (the same shall apply in this Article), falls below the level separately set by JSCC⁵⁴ and its creditworthiness has deteriorated in the manner specified by JSCC⁵⁵;
 - b. If the Clearing Participant is a Registered Financial Institution other than an insurance company, when its non-consolidated or consolidated capital adequacy ratio falls below the level set by JSCC⁵⁶, and its creditworthiness has deteriorated in the manner specified by JSCC⁵⁷;
 - c. If the Clearing Participant is an insurance company which is a Registered Financial Institution, when its non-consolidated or consolidated solvency margin ratio falls below the level set by JSCC⁵⁸, and its creditworthiness has deteriorated in the manner specified by JSCC⁵⁹; and
 - d. When the Clearing Participant's creditworthiness is judged inadequate based on criteria set by JSCC in a notification or a public notice⁶⁰.

⁵³ *cf.* Handling Procedures of IRS Clearing Business, Article 24.1.

⁵⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 24.2.

⁵⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 24.2.

⁵⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 24.3.

⁵⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 24.3.

⁵⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 24.4.

⁵⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 24.4.

⁶⁰ Deterioration of creditworthiness will be judged based on criteria set by JSCC in a notification or a public notice. It is available at;

- (2) Where the Clearing Participant has a Parental Guarantee:
- a. If the Clearing Participant is a Financial Instruments Business Operator, when its Capital-to-Risk Ratio falls below the level set by JSCC⁶¹, and its Parent Company is subject to an event specified by JSCC⁶², and the creditworthiness of its Parent Company deteriorates in the manner specified by JSCC⁶³;
 - b. If the Clearing Participant is a Registered Financial Institution other than an insurance company, when its non-consolidated or consolidated capital adequacy ratio falls below the level set by JSCC⁶⁴, and its Parent Company is subject to an event specified by JSCC⁶⁵, and the creditworthiness of its Parent Company deteriorates in the manner specified by JSCC⁶⁶;
 - c. If the Clearing Participant is an insurance company which is a Registered Financial Institution, when its non-consolidated or consolidated Solvency Margin Ratio falls below the level set by JSCC⁶⁷, and its Parent Company is subject to an event specified by JSCC⁶⁸, and the creditworthiness of its Parent Company deteriorates in the manner specified by JSCC⁶⁹; and
 - d. When the Parent Company's creditworthiness is judged inadequate based on criteria set by JSCC in a notification or a public notice⁷⁰.

<http://www.jsc.co.jp/en/data/en/2013/08/1Guidelines-Concerning-Credit-Standing-of-Clearing-Participants-etc.-in-IRS-Clearing-Business1.pdf>

⁶¹ *cf.* Handling Procedures of IRS Clearing Business, Article 24.5.

⁶² *cf.* Handling Procedures of IRS Clearing Business, Article 24.8.

⁶³ *cf.* Handling Procedures of IRS Clearing Business, Article 24.5.

⁶⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 24.6.

⁶⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 24.8.

⁶⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 24.6.

⁶⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 24.7.

⁶⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 24.8.

⁶⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 24.7.

⁷⁰ Deterioration of creditworthiness will be judged based on criteria set by JSCC in a notification or a public notice. It is available at;

2 The Required Initial Margin arising from Customer's Cleared Contracts shall also be subject to the increase set forth in Paragraph 1; provided that the Required Initial Margin arising from Customer's Cleared Contracts will not be raised for a Customer that has designated one or more Backup Clearing Broker (or, if the Customer also is a Cross Margining User, for a Customer that has designated a Backup Clearing Broker and a Listed Futures Backup Clearing Broker). However, if the Required Initial Margin applicable to such Backup Clearing Broker, or all of the Customer's Backup Clearing Brokers when the Customer has designated multiple Backup Clearing Brokers, is raised pursuant to the provisions set forth in Paragraph 1, the Required Initial Margin arising from such Customer's Cleared Contracts shall be subject to increase set forth in Paragraph 1.

Article 33. Actions taken upon Default of Clearing Participant

When JSCC determines that a Clearing Participant is subject to either of the following events, it may revoke the IRS Clearing Qualification of such Clearing Participant:

- (1) If JSCC determines the Default of such Clearing Participant to have occurred;
 or
- (2) If the Clearing Participant ceases to be either Financial Instruments Business Operator or Registered Financial Institution.

Article 34. Lifting Suspension of Clearing or Other Action

1 In the event that JSCC has suspended Clearing for a Clearing Participant or Suspended Cross Margining pursuant to Article 28 for an indefinite period, the Clearing Participant subject to such suspension may request that JSCC lift such suspension by submitting written explanation in the form prescribed by JSCC, when the cause of such suspension has ceased to exist.

2 When JSCC deems it appropriate considering the IRS Clearing Business, JSCC will lift the suspension based on the above request.

<http://www.jsc.co.jp/en/data/en/2013/08/1Guidelines-Concerning-Credit-Standing-of-Clearing-Participants-etc.-in-IRS-Clearing-Business1.pdf>

3 If the suspension of Clearing set forth in Paragraph 1 has not been lifted pursuant to the provisions set forth in Paragraph 2 within six (6) months from the date of commencement of such suspension, JSCC may revoke such Clearing Participant's IRS Clearing Qualification subject to a resolution of the board of directors of JSCC.

4 The provisions of Paragraphs 1 and 2 above shall apply *mutatis mutandis* with respect to the actions taken by JSCC in accordance with Articles 29 through 30 and Article 32.

Article 35. Objection

The proviso to Article 15.1, and the provisions of Article 15.2 and 3 shall apply *mutatis mutandis* when a consultation is held under Articles 28 and 30, and the provisions of Article 15.4 through 6 shall apply *mutatis mutandis* when the actions set forth in Article 28 and Articles 29-2 through Article 30 are taken.

Article 36. Disciplinary Measures Assessment Committee

1 When JSCC intends to take any of the actions set forth in Article 28, Article 29-2.2 and Articles 29-3 through 30 and Article 31 against a Clearing Participant, JSCC shall consult with the Disciplinary Measures Assessment Committee in advance regarding the appropriateness of such actions, and consider their opinion.

2 Notwithstanding the provisions of Paragraph 1, when urgent action is required, JSCC may take such actions without consultation with the Disciplinary Measures Assessment Committee.

3 In addition to the provisions prescribed in Paragraphs 1 and 2, other matters concerning the Disciplinary Measures Assessment Committee shall be prescribed in the Subordinate Rules⁷¹.

Article 37. Notice of Actions

1 When JSCC is to completely or partially suspend Clearing, to Suspend Cross Margining, to revoke an IRS Clearing Qualification or to cancel the authorization to handle Client Clearing pursuant to these Business Rules, JSCC shall give notice of such suspension or revocation to the relevant Clearing Participant in advance.

⁷¹ Disciplinary Measures Assessment Committee Rules.

2 When JSCC has completely or partially suspended Clearing for a Clearing Broker, Suspended Cross Margining, revoked its IRS Clearing Qualification or cancelled the authorization to handle Client Clearing, such Clearing Broker shall immediately give notice of such suspension or revocation to all Customers with which they have Clearing Brokerage Agreements.

3 When JSCC took measures of Suspension of Cross Margining against a Clearing Participant, such Clearing Participant must immediately notify such effect to the JGB Futures Clearing Participant it notified to JSCC as Cross Margining Requestor pursuant to the provisions of Article 84-2.

4 When JSCC has instructed a Clearing Participant to make improvements, completely or partially suspended Clearing for a Clearing Participant, Suspended Cross Margining, revoked an IRS Clearing Qualification, instructed a Clearing Participant to manage the risk of its cleared positions or cancelled the authorization to handle Client Clearing pursuant to these Business Rules, after taking such action, JSCC shall promptly notify other Clearing Participants and make a public announcement to that effect; provided that if JSCC deems it necessary and appropriate in light of the impact of such notification on the market, and other factors, JSCC may make such notification and announcement when JSCC deems it appropriate.

5 When making the notification and public announcement prescribed in Paragraph 3, JSCC shall decide the scope of such notification and public announcement separately for each occurrence, in light of the significance of the action, market impact and other related factors.

Article 38. Handling of Cleared Contracts in the Event of Revocation of IRS Clearing Qualification

1 In the event of a revocation of IRS Clearing Qualification of a Clearing Participant other than the revocation caused by the event listed in Article 33. (1), such Clearing Participant shall terminate all of its outstanding Cleared Contracts within the period specified by JSCC.

2 In the case set forth in Paragraph 1, if the Clearing Participant fails to terminate all outstanding Cleared Contracts within the period specified according to the provisions of Paragraph 1, such Cleared Contracts were treated in the same manner

as the provisions set forth in in Chapter 9, Section 2 of these Business Rules, excluding Articles 96 through 98,. In such case, JSCC shall decide on such other matters as become necessary.

Article 39. Recommendation to Clearing Participant

1 When JSCC determines that the business capability or financial condition of a Clearing Participant is not satisfactory when considering its impact on the IRS Clearing Business, JSCC's operation of the IRS Clearing Business and other factors, JSCC may recommend that such Clearing Participant take appropriate action.

2 When a recommendation set forth in Paragraph 1 has been issued, JSCC may require that the Clearing Participant inform JSCC of the actions it has taken in such regard.

Section 7 Miscellaneous (Articles 40 – 41)

Article 40. Take-over by Clearing Participant of Outstanding Contracts from Another Clearing Participant resulting from Demerger or Business Transfer

1 A Clearing Participant causing its business to be succeeded by another Clearing Participant through a demerger, or transferring its business to another Clearing Participant (referred to as "Demerged Participant" in this Article) may, when it does not renounce its IRS Clearing Qualification simultaneously with such succession or transfer, with JSCC's approval, have such other Clearing Participant (referred to as "Taking-over Participant" in this Article) take over the outstanding Cleared Contracts involved in the succession or transfer of such business (referred to as "Taken-over Contracts" in this Article).

2 In the event of business transfer set forth in Paragraph 1, when the Taken-over Contracts were Customer's Cleared Contracts, the Demerged Participant shall obtain the consent of the Customer, for whom it is acting as Clearing Broker in respect of the Taken-over Contracts, to such take-over.

3 Costs required for taking over the Taken-over Contracts under this Article shall be borne by the Demerged Participant or Taking-over Participant.

Article 40-2. Take-over by Customer of Outstanding Contracts from Clearing

Participant resulting from Merger, Demerger or Business Transfer

1 A Clearing Participant merged into a Customer, causing its business to be succeeded by a Customer through a demerger, or transferring its business to a Customer (referred to as “Merged Participant” in this Article) may, with JSCC’s approval, have such Customer (referred to as “Taking-over Customer” in this Article) take over the outstanding Proprietary Cleared Contracts involved in the merger, succession or transfer of such business (referred to as “Taken-over Contracts” in this Article). In this case, the Taken-over Contracts shall be deemed to be the Clearing Brokerage Contracts between the Taking-over Customer and its Clearing Broker and the Customer’s Cleared Contracts corresponding to the Clearing Brokerage Contracts between such Clearing Broker and JSCC for the purpose of the application of the Rules.

2 In the case of Paragraph 1, the Taking-over Customer shall obtain the consent of the Clearing Broker mentioned in Paragraph 1 on the take-over of the Taken-over Contracts in advance.

3 When JSCC considers that acquisition by the Taking-over Customer of the consent set forth in Paragraph 2 cannot be expected, notwithstanding the provisions of Paragraph 1, JSCC may have the Merged Participant and the Taking-over Customer terminate the Taken-over Contracts or make other arrangements deemed necessary.

4 Costs required for taking over the Taken-over Contracts under this Article shall be borne by the Merged Participant or the Taking-over Customer.

Article 40-3. Take-over by Clearing Participant of Clearing Brokerage Contracts from Customer resulting from Merger, Demerger or Business Transfer

1 A Customer merged into a Clearing Participant, causing its business to be succeeded by a Clearing Participant through a demerger, or transferring its business to a Clearing Participant (referred to as “Merged Customer” in this Article) may, with JSCC’s approval, have such Clearing Participant (referred to as “Taking-over Participant” in this Article) take over the outstanding Clearing Brokerage Contracts involved in the merger, succession or transfer of such business (referred to as “Taken-over Contracts” in this Article). In this case, the Taken-over Contracts shall be deemed to be the Proprietary Cleared Contracts between such Taking-over Participant and JSCC for the purpose of the application of the Rules.

2 When the taking over set forth in Paragraph 1 occurs, the Customer's Cleared Contracts corresponding to the Taken-over Contracts between the Clearing Broker for the Merged Customer and JSCC shall terminate as a matter of course.

3 In the case of Paragraph 1, the Merged Customer shall obtain the consent of the Clearing Broker mentioned in Paragraph 2 on the take-over of the Taken-over Contracts in advance.

4 When JSCC considers that acquisition by the Merged Customer of the consent set forth in Paragraph 3 cannot be expected, notwithstanding the provisions of Paragraphs 1 and 2, JSCC may have the Merged Customer and the Taking-over Participant terminate the Taken-over Contracts or make other arrangements deemed necessary.

5 Costs required for taking over the Taken-over Contracts under this Article shall be borne by the Merged Customer or the Taking-over Participant.

Article 40-4. Take-over by Customer of Clearing Brokerage Contracts from Another Customer resulting from Merger, Demerger or Business Transfer

1 A Customer merged into another Customer, causing its business to be succeeded by another Customer through a demerger, or transferring its business to another Customer (referred to as "Merged Customer" in this Article) may, with JSCC's approval, have such other Customer (referred to as "Taking-over Customer" in this Article) take over the outstanding Clearing Brokerage Contracts involved in the merger, succession or transfer of such business (referred to as "Taken-over Contracts" in this Article). In this case, the Taken-over Contracts shall be deemed to be the Clearing Brokerage Contracts between the Taking-over Customer and its Clearing Broker and the Customer's Cleared Contracts corresponding to the Clearing Brokerage Contracts between such Clearing Broker and JSCC for the purpose of the application of the Rules.

2 When the taking over set forth in Paragraph 1 occurs, the Customer's Cleared Contracts corresponding to the Taken-over Contracts between the Clearing Broker for the Merged Customer and JSCC shall terminate as a matter of course.

3 In the case of Paragraph 1, the Merged Customer and the Taking-over Customer shall obtain the consent of their respective Clearing Broker on the take-over of the Taken-

over Contracts in advance.

4 When JSCC considers that acquisition by the Merged Customer or the Taking-over Customer of the consent set forth in Paragraph 3 cannot be expected, notwithstanding the provisions of Paragraphs 1 and 2, JSCC may have the Merged Customer and the Taking-over Customer terminate the Taken-over Contracts or make other arrangements deemed necessary.

5 Costs required for taking over the Taken-over Contracts under this Article shall be borne by the Merged Customer or the Taking-over Customer.

Article 41. Foreign Entity Having Branch Registered as Registered Financial Institution

A foreign entity having a branch which has been registered under Article 33-2 of the Financial Instruments and Exchange Act shall be deemed a Registered Financial Institution for the purpose of this Chapter.

Chapter 3 Clearing Brokerage (Articles 42 – 47)

Article 42. Subject Transaction for Clearing Brokerage

The Subject Transactions that may be cleared for the account of a Customer by a Clearing Participant providing Clearing Brokerage shall be Eligible IRS Transactions.

Article 43. Conclusion of Clearing Brokerage Agreement

1 A Clearing Participant shall enter into a Clearing Brokerage Agreement with a potential Customer before acting as a Clearing Broker.

2 If a potential Customer requests a Clearing Participant to act as its Clearing Broker, the potential Customer shall enter into a Clearing Brokerage Agreement with such Clearing Participant and submit to JSCC via the Clearing Participant a letter of undertaking in the form prescribed by JSCC⁷² stating that it shall comply with such Clearing Brokerage Agreement and the Rules

3 The Clearing Broker receiving a letter of undertaking described in Paragraph 2 from a potential Customer shall immediately submit such letter of undertaking to JSCC.

⁷² cf. Handling Procedures of IRS Clearing Business, Article 26, as well as Exhibit Form 4.

Article 44. Notification of Conclusion of Clearing Brokerage Agreement

1 When a Clearing Participant intends to enter into a Clearing Brokerage Agreement, it shall notify JSCC of the details thereof in advance in the manner separately prescribed by JSCC⁷³.

2 Upon receipt of the notification set forth in Paragraph 1 from a Clearing Participant, unless the notification set forth in Paragraph 1 has already been given by another Clearing Participant in respect of the same Customer, JSCC shall promptly notify other Clearing Participants, and give public notice, of the trade name of and other matters related to such Customer according to the notification given by the Clearing Participant.

Article 45. Notification of Termination of Clearing Brokerage Agreement

1 When a Clearing Brokerage Agreement is terminated, the relevant Clearing Broker shall notify JSCC of the details of such termination in the manner set forth below according to the cause of termination, as well as items as separately prescribed by JSCC⁷⁴:

- (1) Termination by agreement:
A Clearing Broker shall submit a notification at least three (3) JSCC Business Days before the scheduled termination date.
- (2) Termination by a prior written notice of intention to terminate the Clearing Brokerage Agreement given by a Clearing Broker to a Customer (excluding the termination set forth in Item (4)):
The Clearing Broker shall submit a notification without delay after it gives such notice of its intention to terminate.
- (3) Termination by a Customer by giving a prior written notice of its intention to terminate the Clearing Brokerage Agreement to a Clearing Broker:
The Clearing Broker shall submit a notification without delay after it receives such notice of the intention to terminate.

⁷³ *cf.* Handling Procedures of IRS Clearing Business, Article 16.

⁷⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 16.1.

- (4) Other termination in accordance with the provisions of the Clearing Brokerage Agreement:

The Clearing Broker shall submit a notification in advance or without delay after the termination of such Clearing Brokerage Agreement.

2 Clearing Brokerage Contracts concluded before the termination of the Clearing Brokerage Agreement mentioned in Paragraph 1 shall continue to be governed by such Clearing Brokerage Agreement.

3 No termination of a Clearing Brokerage Agreement shall become effective until JSCC receives the notification pursuant to the provisions of Paragraph 1.

4 Upon receipt of the notification set forth in Paragraph 1 from a Clearing Participant, if, due to the termination of the Clearing Brokerage Agreement subject to such notification, the Customer ceases to have any Clearing Brokerage Agreement with any Clearing Participant, or otherwise when JSCC deems appropriate, JSCC shall promptly notify other Clearing Participants, and give public notice, of the trade name of and other matters related to such Customer.

Article 45-2. Designation of Backup Clearing Broker

1 A Customer may designate in advance another Clearing Broker as its Backup Clearing Broker so that, if one Clearing Broker is in Default, the claims and obligations arising from the Customer's Cleared Contracts cleared through the Defaulting Clearing Broker and Clearing Brokerage Contract can be transferred to the Backup Clearing Broker.

Any Clearing Broker which has been acting for a given Customer may be designated as its Backup Clearing Broker; providing that no Defaulting Clearing Broker may be designated as Backup Clearing Broker.

2 A Customer intending to designate a Backup Clearing Broker as set forth in Paragraph 1 and a Clearing Broker intending to accept such designation shall agree in advance that the potential Backup Clearing Broker accept the claims and obligations arising as a result of the Customer's Cleared Contracts and Clearing Brokerage Contracts in all or in part belonging to the Customer pursuant to the provisions of Article 94 or Article 94-2, in the event of the Default of the Customer's other Clearing Broker.

3 The Customer who makes the designation of Backup Clearing Broker set forth in Paragraph 1 shall notify such designation, to JSCC through the Clearing Broker who accepts such designation by submitting the notification form prescribed by JSCC in the manner prescribed by JSCC⁷⁵, together with such documents as JSCC deems necessary.

4 A Backup Clearing Broker shall report to JSCC the details of the agreement regarding Position Transfer in the event of Clearing Broker Default reached with the Customer in the manner prescribed by JSCC⁷⁶.

5 The Customer designating its Backup Clearing Broker under the provisions of Paragraph 1 and the Backup Clearing Broker shall make efforts to put in place a structure, in the manner separately prescribed by JSCC⁷⁷, that will enable transfer of Customer's Cleared Contracts and Clearing Brokerage Contracts pursuant to the agreement between the Customer and the Backup Clearing Broker in the event of a determination of a Default of the Customer's Clearing Broker.

6 A Backup Clearing Broker no longer wishing to be a Customer's designated Backup Clearing Broker shall reach an agreement with the Customer, and notify JSCC in the manner prescribed by JSCC.

Article 45-3. Designation of Listed Futures Backup Clearing Broker

1 A Cross Margining User falling under Article 2.1.(13)-9.b. to d. may designate in advance another JGB Futures Clearing Participant as its Listed Futures Backup Clearing Broker to smoothly effect Listed Futures Position Transfer in respect of claims and obligations related to JGB Futures Cleared Contracts and the like and claims and obligations related to Interest Rate Futures Cleared Contracts and the like to one or more JGB Futures Clearing Participants when claims and obligations come into existence pursuant to the provisions of Article 84-5.1.

2 When a designation is intended as set forth in Paragraph 1 (hereinafter refer to as "Designation of a Listed Futures Backup Clearing Broker"), a Cross Margining User (and the JGB Futures Non-Clearing Participant, when the JGB Futures Contracts or the Interest Rate Futures Contracts of the Cross Margining User are traded through

⁷⁵ cf. Handling Procedures of IRS Clearing Business, Article 26-2.1

⁷⁶ cf. Handling Procedures of IRS Clearing Business, Article 26-2.2.

⁷⁷ cf. Handling Procedures of IRS Clearing Business, Article 26-2.3.

brokerage of the JGB Futures Non-Clearing Participant; the same applies in Paragraphs 4 to 6 below), and a JGB Futures Clearing Participant intending to accept such designation shall agree in advance that the potential Listed Futures Backup Clearing Broker accepts the Listed Futures Position Transfer in respect of all or a part of the claims and obligations related to JGB Futures Cleared Contracts and the like and the claims and obligations related to Interest Rate Futures Cleared Contracts and the like pursuant to the provisions of Article 94-3, when the claims and obligations come into existence pursuant to the provisions of Article 84-5.1.

3 The Cross Margining User who makes the designation of Listed Futures Backup Clearing Broker set forth in Paragraph 1 shall notify such designation to JSCC through the Cross Margining Accepting Party by submitting the notification form prescribed by JSCC in the manner prescribed by JSCC, together with such documents as JSCC deems necessary.

4 A Listed Futures Backup Clearing Broker shall report to JSCC, through the Cross Margining Accepting Party, for the details of the agreement regarding Listed Futures Position Transfer reached with the Cross Margining User in the manner prescribed by JSCC⁷⁸.

5 When a Listed Futures Backup Clearing Broker has been designated pursuant to the provisions of Paragraph 1, the Cross Margining User and the Listed Futures Backup Clearing Broker shall make efforts to put in place a structure, in the manner separately prescribed by JSCC⁷⁹, that will enable Listed Futures Position Transfer in respect of the claims and obligations related to JGB Futures Cleared Contracts and the like and the claims and obligations related to Interest Rate Futures Cleared Contracts and the like pursuant to the agreement between the Cross Margining User and the Listed Futures Backup Clearing Broker, in the event that the claims and obligations come into existence pursuant to the provisions of Article 84-5.1.

6 A Listed Futures Backup Clearing Broker no longer wishing to be a designated Listed Futures Backup Clearing Broker shall reach an agreement with the Cross Margining User who designated it as Listed Futures Backup Clearing Broker, and submit the request form prescribed by JSCC to JSCC through the Cross Margining Accepting

⁷⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 26-3.1.

⁷⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 26-3.2.

Party.

Article 46. Validity of Letter of Undertaking

1 A Customer letter of undertaking⁸⁰ submitted to JSCC shall cease to have effect when the Clearing Brokerage Agreement entered into between the Customer and the Clearing Broker is terminated.

2 If the outstanding claims and obligations remain between the Customer or the Clearing Broker and JSCC in connection with the Customer's Cleared Contracts and the Clearing Brokerage Contracts that have been executed before the letter of undertaking set forth in Paragraph 1 ceases to have effect, and in connection with associated Initial Margin, such letter of undertaking shall remain in effect to the extent that it relates to such claims and obligations.

Article 47. Segregation of Cleared Contracts

1 A Clearing Broker shall manage the Cleared Contracts to which it is a party by segregating Proprietary Cleared Contracts from Customer's Cleared Contracts.

2 A Clearing Broker shall manage the Customer's Cleared Contracts separately for each Clearing Brokerage Account.

Chapter 4 Clearing and Cleared Contracts

Section 1 Clearing (Articles 48 – 50)

Article 48. Request for Clearing

1 A Clearing Participant may submit a request for Clearing to JSCC by submitting a notification as prescribed by JSCC⁸¹. JSCC will only receive such notification under the conditions separately prescribed by JSCC⁸².

2 The request for Clearing pursuant to the provisions of Paragraph 1 shall be made by both parties to the Eligible IRS Transaction for which Clearing is requested.

⁸⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 26, as well as Exhibit Form 4.

⁸¹ *cf.* Handling Procedures of IRS Clearing Business, Article 271.

⁸² *cf.* Handling Procedures of IRS Clearing Business, Article 272.

3 If the Clearing Participant gives notification of request for Clearing set forth in Paragraph 1, the Clearing Participant shall be deemed to have expressed, to the Clearing Participant who is the counterparty to such Eligible IRS Transaction, its intention to agree to the termination of such Eligible IRS Transaction in accordance with the provisions of Article 50, on condition that a Cleared Contract corresponding to such Eligible IRS Transaction comes into effect in accordance with the provisions of Article 49.1 below.

4 In the case where the Clearing Participant is a counterparty to the Clearing Brokerage Original Transaction, if it gives notification of request for Clearing set forth in Paragraph 1, the Clearing Participant shall be deemed to have expressed, to the Customer who is a party to such Clearing Brokerage Original Transaction, its intention to agree to the termination of such Clearing Brokerage Original Transaction, on condition that the requirements set forth in each Item of Article 54.4 or Article 54-2.1.(4), as the case maybe, are satisfied.

5 A Clearing Participant may withdraw a request set forth in Paragraph 1 and a declaration of intent to agree to terminate in accordance with the provisions of Paragraphs 2 and 3 only if it withdraws all of such requests and declaration of intent.

Article 49. Execution of Cleared Contracts through Clearing

1 When JSCC receives a request set forth in Article 48.1 from both parties to an Eligible IRS Transaction, JSCC confirms that the request and such Eligible IRS Transaction satisfy the requirements separately prescribed by JSCC⁸³ and that the relevant Clearing Participants have deposited with or delivered to JSCC the margin calculated according to the method separately prescribed by JSCC⁸⁴ ("Margin Required to Clear") in the manner separately prescribed by JSCC⁸⁵ ("Clearing Requirements"). Upon JSCC's confirmation of satisfaction of Clearing Requirements, an IRS Transaction between the Clearing Participant who was a party to such an Eligible IRS Transaction (referred to as the "First Clearing Participant" in this Article) and JSCC, in which JSCC assumes the same Transaction Side as that of the counterparty to the First Clearing Participant (referred to as the "Second Clearing Participant" in this Article) under such Eligible IRS Transaction, and another IRS Transaction between the Second Clearing

⁸³ *cf.* Handling Procedures of IRS Clearing Business, Article 28.1.

⁸⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 28.4, as well as Appendix 2.

⁸⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 28.2.

Participant and JSCC, in which JSCC assumes the same Transaction Side as that of the First Clearing Participant under the Eligible IRS Transaction, shall come into effect at the time prescribed by JSCC⁸⁶. However, even in the case where an amount sufficient to cover the Margin Required to Clear has not been deposited with or delivered to JSCC, if the criteria listed below are satisfied at the time of JSCC's receipt of the request for Clearing set forth in Article 48.1, the IRS Transactions set forth in this paragraph shall come into effect:

(1) Notional Amount of the Eligible IRS Transactions subject to such request is less than the amount prescribed by JSCC⁸⁷;

(2) The criteria set forth in a. or b., as applicable, are met according to the classification listed in a. or b. below:

a. Proprietary Account subject to such request

Shortfall in Margin Required to Clear related to the Proprietary Account of the Clearing Participant submitted such request is not more than the cap prescribed by JSCC⁸⁸ (or, when an allocation set forth in b. below is made, the amount remaining after deducting such allocated amount) (hereinafter referred to as "Cap on Acceptable Shortfall in Margin Required to Clear");

b. Customer Account subject to such request

When a Clearing Broker makes an allocation of the Cap on Acceptable Shortfall in Margin Required to Clear for its Proprietary Account to the Customer Account subject to such request, the Shortfall in Margin Required to Clear related to the relevant Customer Account, or, when the Customer Buffer is available for allocation to the relevant Customer Account pursuant to the provisions of Article 83-7.1, the Shortfall in Margin Required to Clear after receiving such allocation, is not more than the allocated cap. In the preceding sentence, an allocation means a conduct of allocating a part of the Cap on Acceptable Shortfall in Margin Required to Clear related to the Proprietary Account of the Clearing Broker to the relevant Customer Account by Clearing Broker giving notice to JSCC in a manner prescribed by JSCC⁸⁹;

(3) Initial Margin Deposited Amount of the Clearing Participant or the Customer is at least equal to the Required Initial Margin on the JSCC Business Day immediately preceding the date of submission of such request with respect to the Proprietary

⁸⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 28.3.

⁸⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 28.1.5.

⁸⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 28.1.6.

⁸⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 28.1.7.

Account of the Clearing Participant or the relevant Customer Account, or the Required Intraday Margin on the date of submission of such request;

- (4) The Clearing Participant submitted such request is not subject to the measures of increasing Required Initial Margin due to its creditworthiness as set forth in Article 32.1.

2 When Cleared Contracts come into effect pursuant to the provisions of Paragraph 1, JSCC shall promptly notify the Clearing Participants who are the parties to such Cleared Contracts to that effect in the manner as separately prescribed by JSCC⁹⁰.

3 If, at the time of receipt by JSCC of a request for Clearing, JSCC cannot confirm that both sides of the Clearing Participants who requested Clearings have deposited with or delivered to JSCC the Margin Required to Clear as set forth in Paragraph 1, JSCC will promptly reject the Eligible IRS Transaction, and will promptly notify the relevant Clearing Participants to such effect in the manner separately prescribed by JSCC⁹¹, unless the criteria set forth in the proviso of Paragraph 1 are satisfied.

4 Notwithstanding Article 48.1, if JSCC deems it necessary to protect the continued operation of the IRS Clearing Business, including when it determines the Default of a Clearing Participant, JSCC may temporarily change the time during which it will receive requests for Clearing. In such a case, JSCC shall notify the Clearing Participants of the below listed matters in advance.

- (1) That JSCC has temporarily changed the time during which it will receive requests for Clearing pursuant to the provisions of this paragraph; and

- (2) The new time.

5 Once the Cleared Contracts come into effect pursuant to the provisions of Paragraph 1, the Clearing Participant may not assert any right against JSCC in respect of the Eligible IRS Transaction prescribed in Paragraph 1 or the Clearing Brokerage Original Transaction, or claims and obligations thereunder, even if there are any grounds entitling it to assert such right against another Clearing Participant or a Customer who was the counterparty thereto, including but not limited to the existence of the relevant

⁹⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 28.5.

⁹¹ *cf.* Handling Procedures of IRS Clearing Business, Article 28.5.

Eligible IRS Transaction, defects in expressing its intention or failure to express its intention.

6 When Cleared Contracts come into effect pursuant to the provisions in Paragraph 1, such Cleared Contracts shall come into effect as Cleared Contracts (Collateral Type).

Article 50. Agreed-upon Termination of Eligible IRS Transaction

1 The Eligible IRS Transaction that has been cleared and the claims and obligations under such Eligible IRS Transaction shall cease to exist and have no future effect, as of the time when the Cleared Contracts come into effect, by an agreement to the termination between the Clearing Participants which were the parties to such Eligible IRS Transaction in accordance with the provisions of Article 48.3 and other provisions in these Business Rules, except that the below listed obligations shall remain effective after such termination:

- (1) Payment obligations for the Fixed Amount and Floating Amount under the Eligible IRS Transaction which have already become due at the time when such Cleared Contracts come into effect; and
- (2) Obligations that have already accrued at the time when such Cleared Contracts come into effect, as specified by JSCC.

2 A Clearing Participant shall not be liable for payment of any fees, damages or any other money in connection with the agreed-upon termination set forth in Paragraph 1 other than those set forth in Paragraph 1.

3 In the event of any inconsistency or conflict between the agreement of the Clearing Participants which were the parties to the Eligible IRS Transaction as set forth in Paragraph 1 and the provisions of Paragraph 1, the provisions of Paragraph 1 shall prevail.

Section 2 Cleared Contracts (Articles 51 – 53-4)

Article 51. Details of Cleared Contracts

1 Cleared Contracts shall be governed by the Rules, the ISDA Master Agreement

and the ISDA Definitions. Any individual 2002 ISDA Master Agreement with its Schedule, or any other form of master agreement, separately prescribed by JSCC⁹², which stipulates basic matters concerning over-the-counter derivative transactions, existing between Clearing Participants, or any other agreement between Clearing Participants which is not prescribed in the Rules, including but not limited to any Confirmation entered into between Clearing Participants which were the parties to the relevant Eligible IRS Transaction, shall have no force or effect on Cleared Contracts.

2 Details of the Cleared Contracts shall be subject to the provisions set forth in Article 49.1 and Paragraph 1 above, and the rules separately prescribed by JSCC⁹³.

3 Any replacement of terms and other matters which would become necessary for applying the ISDA Master Agreement and the ISDA Definitions to Cleared Contracts pursuant to the provisions of Paragraph 1 shall be separately prescribed by JSCC⁹⁴.

4 In the event of inconsistency or conflict between the provisions of the ISDA Master Agreement or the ISDA Definitions and the provisions of the Rules, the provisions of the Rules shall prevail.

Article 51-2. Application for Exchanging Mark-to-Market Difference And Adjustment Amount

1 When a Clearing Participant intends to exchange Mark-to-Market Difference And Adjustment Amount for Cleared Contracts (Collateral Type), it must notify such effect to JSCC in the manner prescribed by JSCC⁹⁵ ("Application for Exchanging Mark-to-Market Difference And Adjustment Amount).

2 When JSCC has received an Application for Exchanging Mark-to-Market Difference And Adjustment Amount from a Clearing Participant for multiple Cleared Contracts (Collateral Type) recorded in the Proprietary account or the same Customer account pursuant to the provisions in Paragraph 1, JSCC will confirm that such Cleared Contracts (Collateral Type) satisfy the conditions separately prescribed by JSCC⁹⁶ ("VM-

⁹² *cf.* Handling Procedures of IRS Clearing Business, Article 29.1.

⁹³ *cf.* Handling Procedures of IRS Clearing Business, Article 29.3.

⁹⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 29.2.

⁹⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 29-2.1.

⁹⁶ Handling Procedures of IRS Clearing Business, Article 29-2.3

as-Settlement Requirements”) in the manner prescribed by JSCC⁹⁷. If the Cleared Contracts (Collateral Type) satisfy the VM-as-Settlement Requirements, such Cleared Contracts shall be treated as Cleared Contracts (Settlement Type) as of the time of the confirmation by JSCC. Then, Variation Margin will be not paid or received for such Cleared Contracts.

3 Upon JSCC’s confirmation of satisfaction of VM-as-Settlement Requirements pursuant to the provisions in Paragraph 2, the Variation Margin, obligations to return Variation Margin and payment obligations for Mark-to-Market Difference shall be netted automatically as prescribed by JSCC⁹⁸, without any notice from JSCC or such Clearing Participant.

4 A Clearing Participant may withdraw an Application for Exchanging Mark-to-Market Difference And Adjustment Amount made pursuant to the provisions in Paragraph 1 through a method separately prescribed by JSCC, during the period before JSCC makes confirmation prescribed in Paragraph 2.

5 In addition to the matters set forth in Paragraphs 1 through 4, matters necessary for the exchanging of Mark-to-Market Difference And Adjustment Amount shall be separately prescribed by JSCC.

Article 52. Early Termination Charge

In the event of an Early Termination of a Cleared Contract, the relevant Clearing Participant or JSCC, as the case may be, must pay an Early Termination Charge as prescribed in the Rules.

Article 53. Per Trade Compression of Cleared Contracts

1 If a Clearing Participant desires the Per Trade Compression of a Cleared Contract, it shall apply for Per Trade Compression to JSCC by giving notice in the method separately prescribed by JSCC⁹⁹.

2 If JSCC receives the application for the Per Trade Compression of multiple Cleared Contracts recorded on the Proprietary Account or a same Customer Account

⁹⁷ Handling Procedures of IRS Clearing Business, Article 29-2.4

⁹⁸ Handling Procedures of IRS Clearing Business, Article 29-2.5

⁹⁹ cf. Handling Procedures of IRS Clearing Business, Article 30.1.

from a Clearing Participant in accordance with Paragraph 1, JSCC shall check, in the manner separately prescribed by JSCC, to see if the Cleared Contracts and the new Cleared Contract that will come into effect as a result of the Per Trade Compression satisfy the requirements separately prescribed by JSCC¹⁰⁰ ("Per Trade Compression Conditions"). If such Cleared Contracts and new Cleared Contract that will come into effect as a result of the Per Trade Compression satisfy the Per Trade Compression Conditions, JSCC and the Clearing Participant shall have the relevant Cleared Contracts terminated and the new Cleared Contract with such economic terms as designated by JSCC identical to the relevant Cleared Contracts established as Cleared Contract (Collateral Type) in the manner prescribed by JSCC as of the time of such confirmation by JSCC.

3 Claims and obligations under the Cleared Contract terminated as per the provisions of Paragraph 2, other than those designated by JSCC¹⁰¹, shall cease to exist and have no future effect.

4 JSCC will not conduct Per Trade Compression if the Per Trade Compression Conditions are not satisfied when JSCC confirmed the satisfaction as set forth in Paragraph 2.

5 A Clearing Participant may withdraw an application for Per Trade Compression made pursuant to the provisions of Paragraph 1 through a method separately prescribed by JSCC¹⁰².

6 When JSCC receives an application for Blended Rates Compression under Article 53-2.1 in respect of the Cleared Contracts for which an application for Per Trade Compression is made by a Clearing Participant pursuant to the provisions of Paragraph 1, JSCC considers that all applications for Per Trade Compression related to all Cleared Contracts recorded on the Proprietary Account or the same Customer Account on which the relevant Cleared Contracts are recorded are withdrawn.

7 In addition to the matters set forth in Paragraphs 1 through 6, matters necessary for the Per Trade Compression of Cleared Contracts shall be separately prescribed by

¹⁰⁰ cf. Handling Procedures of IRS Clearing Business, Article 30.2.

¹⁰¹ cf. Handling Procedures of IRS Clearing Business, Article 30.6.

¹⁰² cf. Handling Procedures of IRS Clearing Business, Article 30.1.

JSCC¹⁰³.

Article 53-2. Blended Rates Compression of Cleared Contracts

1 If a Clearing Participant desires the Blended Rates Compression of a Cleared Contract, it shall apply for Blended Rates Compression to JSCC by giving notice in the method separately prescribed by JSCC¹⁰⁴.

2 If JSCC receives the application for the Blended Rates Compression of multiple Cleared Contracts recorded on the Proprietary Account or a same Customer Account from a Clearing Participant in accordance with Paragraph 1, JSCC shall check, in the manner separately prescribed by JSCC, to see if the Cleared Contracts and the new Cleared Contract that will come into effect as a result of the Blended Rates Compression satisfy the requirements separately prescribed by JSCC¹⁰⁵ ("Blended Rates Compression Conditions"). If such Cleared Contracts and new Cleared Contract that will come into effect as a result of the Blended Rates Compression satisfy the Blended Rates Compression Conditions, JSCC and the Clearing Participant shall have the relevant Cleared Contracts terminated and the new Cleared Contract with such economic terms as designated by JSCC identical to the relevant Cleared Contracts established as Cleared Contract (Collateral Type) in the manner prescribed by JSCC as of the time of such confirmation by JSCC.

3 Claims and obligations under the Cleared Contract terminated as per the provisions of Paragraph 2, other than those designated by JSCC¹⁰⁶, shall cease to exist and have no future effect.

4 JSCC will not conduct Blended Rates Compression if the Blended Rates Compression Conditions are not satisfied when JSCC confirmed the satisfaction as set forth in Paragraph 2.

5 A Clearing Participant may withdraw an application for Blended Rates Compression made pursuant to the provisions of Paragraph 1 through a method separately prescribed by JSCC¹⁰⁷.

¹⁰³ *cf.* Handling Procedures of IRS Clearing Business, Article 30.

¹⁰⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 30-2.1.

¹⁰⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 30-2.2.

¹⁰⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 30-2.5.

¹⁰⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 30-2.1.

6 When JSCC receives an application for Per Trade Compression under Article 53.1 in respect of the Cleared Contracts for which an application for Blended Rates Compression is made by a Clearing Participant pursuant to the provisions of Paragraph 1, JSCC considers that all applications for Blended Rates Compression related to all Cleared Contracts recorded on the Proprietary Account or the same Customer Account on which the relevant Cleared Contracts are recorded are withdrawn.

7 In addition to the matters set forth in Paragraphs 1 through 6, matters necessary for the Blended Rates Compression of Cleared Contracts shall be separately prescribed by JSCC.

Article 53-2-2. Vendor-Initiated Compression of Cleared Contracts

1 When a Clearing Participant intends to carry out Vendor-Initiated Compression in respect of Cleared Contracts, it shall apply for it to JSCC in the manner as separately prescribed by JSCC¹⁰⁸.

2 If JSCC receives an application for Vendor-Initiated Compression of Cleared Contracts from a Clearing Participant pursuant to the provisions of Paragraph 1, JSCC shall confirm that the Cleared Contracts and new Cleared Contracts that will come into effect as a result of Vendor-Initiated Compression, satisfy the requirement separately prescribed by JSCC¹⁰⁹ and all Clearing Participants have deposited with or delivered to JSCC the Required Intraday Margin calculated on an assumption of the execution of the Vendor-Initiated Compression ("Vendor-Initiated Compression Conditions") pursuant to the provisions set forth by JSCC¹¹⁰. If the Vendor-Initiated Compression Conditions are satisfied, JSCC and the Clearing Participant shall have the relevant Cleared Contracts terminated, and have new Cleared Contracts, terms and conditions of which are described in such applications for Vendor-Initiated Compression established as Cleared Contract (Collateral Type) at the time of such confirmation by JSCC.

3 Claims and obligations under the Cleared Contracts terminated as per the provision of Paragraph 2, other than those designated by JSCC¹¹¹, shall cease to exist

¹⁰⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 30-2.1.

¹⁰⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 30-2.2.

¹¹⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 30-2.3.

¹¹¹ *cf.* Handling Procedures of IRS Clearing Business, Article 30-2.4

and have no future effect.

4 If JSCC cannot confirm the satisfaction of the Vendor-Initiated Compression Conditions as set forth in Paragraph 2 at the time separately prescribed by JSCC¹¹², no Vendor-Initiated Compression will occur in respect of all applications for Vendor-Initiated Compression submitted at such time.

5 Notwithstanding the provisions of Article 48.1, during the hours prescribed by JSCC¹¹³ on the day on which the application for Vendor-Initiated Compression is submitted, no request for Clearings will be accepted by JSCC.

6 The parties to the Cleared Contracts terminated as per the provisions of Paragraph 2 shall settle Cash equivalent to Unwind Fee with JSCC in the manner prescribed by JSCC¹¹⁴.

7 In addition to the matters set forth in Paragraphs 1 through 6, matters necessary for Vendor-Initiated Compression of Cleared Contracts shall be separately prescribed by JSCC.

Article 53-2-3. Member-Initiated Compression of Cleared Contracts

1 When a Clearing Participant intends to carry out the Member-Initiated Compression in respect of Cleared Contracts, it shall apply for it to JSCC in the manner separately prescribed by JSCC¹¹⁵. In this case, if multiple Clearing Participants intend to jointly apply for Member-Initiated Compression, one of those Clearing Participants shall be designated as a representative, which will apply to JSCC for Member-Initiated Compression on behalf of other Clearing Participants (hereinafter referred to as "Collaborating Clearing Participants").

2 If JSCC receives the application for the Member-Initiated Compression in accordance with Paragraph 1, JSCC shall check, in the manner separately prescribed by JSCC, to see if the Cleared Contracts subject to such application and the new Cleared Contract that will come into effect as a result of the Member-Initiated Compression satisfy

¹¹² *cf.* Handling Procedures of IRS Clearing Business, Article 30-2.5.

¹¹³ *cf.* Handling Procedures of IRS Clearing Business, Article 30-2.6.

¹¹⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 30-2.7.

¹¹⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 30-4.1.

the requirements separately prescribed by JSCC¹¹⁶ and if the Clearing Participant, including Collaborating Clearing Participants, if any (the same applies in this paragraph), has deposited with or delivered to JSCC Margin Required to Clear calculated on an assumption of the execution of the Member-Initiated Compression ("Member-Initiated Compression Conditions"). If the Member-Initiated Compression Conditions are satisfied, JSCC and the Clearing Participant(s) shall have the relevant Cleared Contracts terminated and have new Cleared Contract, terms and conditions of which are described in such applications for Member-Initiated Compression established as Cleared Contract (Collateral Type) at the time of such confirmation by JSCC.

3 Claims and obligations under the Cleared Contract terminated as per the provisions of Paragraph 2, other than those designated by JSCC¹¹⁷, shall cease to exist and have no future effect.

4 JSCC will not conduct Member-Initiated Compression if the Member-Initiated Compression Conditions are not satisfied when JSCC confirmed the satisfaction as set forth in Paragraph 2.

5 Parties to the Cleared Contracts terminated pursuant to the provisions of Paragraph 2 shall pay or receive Cash, as an Unwind Fee, between JSCC as prescribed by JSCC¹¹⁸.

6 In addition to the matters set forth in Paragraphs 1 through 5, matters necessary for the Member-Initiated Compression of Cleared Contracts shall be separately prescribed by JSCC.

Article 53-2-4. JSCC-Initiated Compression of Cleared Contracts

1 When a Clearing Participant intends to carry out the JSCC-Initiated Compression in respect of Cleared Contracts, it shall express its intention to do so to JSCC in advance in the manner separately prescribed by JSCC¹¹⁹.

¹¹⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 30-4.2.

¹¹⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 30-4.4.

¹¹⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 30-4.5.

¹¹⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 30-4-2.1.

2 The Clearing Participant expressed its intension as prescribed in Paragraph 1 shall apply for the JSCC-Initiated Compression in respect of the Cleared Contracts it intends to carry out the JSCC-Initiated Compression in the manner separately prescribed by JSCC¹²⁰.

3 If JSCC receives the application for the JSCC-Initiated Compression in accordance with Paragraph 2, JSCC shall give notice of the terms of the Cleared Contracts to terminate and new Cleared Contracts to come into effect, through the Compression JSCC proposes based on such application, to the parties to such Cleared Contracts.

4 When all Clearing Participants applied for the JSCC-Initiated Compression as set forth in Paragraph 2 agree to the proposal set forth in Paragraph 3 in the manner prescribed by JSCC¹²¹, JSCC shall check, in the manner separately prescribed by JSCC¹²², to see if the Cleared Contracts subject to such application and the new Cleared Contract that will come into effect as a result of the JSCC-Initiated Compression satisfy the requirements separately prescribed by JSCC¹²³ and if the Clearing Participant has deposited with or delivered to JSCC Margin Required to Clear calculated on an assumption of the execution of the JSCC-Initiated Compression ("JSCC-Initiated Compression Conditions"). If the JSCC-Initiated Compression Conditions are satisfied, JSCC and the Clearing Participant(s) shall have the relevant Cleared Contracts terminated and have new Cleared Contract established as Cleared Contract (Collateral Type) as per the proposal for the JSCC-Initiated Compression_at the time of such confirmation by JSCC.

5 Claims and obligations under the Cleared Contract terminated as per the provisions of Paragraph 4, other than those designated by JSCC, shall cease to exist and have no future effect.

6 JSCC will not conduct JSCC-Initiated Compression if the JSCC-Initiated Compression Conditions are not satisfied when JSCC confirmed the satisfaction as set forth in Paragraph 4.

¹²⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 30-4-2.2.

¹²¹ *cf.* Handling Procedures of IRS Clearing Business, Article 30-4-2.3.

¹²² *cf.* Handling Procedures of IRS Clearing Business, Article 30-4-2.5.

¹²³ *cf.* Handling Procedures of IRS Clearing Business, Article 30-4-2.4.

7 A Clearing Participant may withdraw its application for JSCC-Initiated Compression submitted pursuant to the provisions of Paragraph 2 in the manner separately prescribed by JSCC¹²⁴.

8 Parties to the Cleared Contracts terminated pursuant to the provisions of Paragraph 4 shall pay or receive Cash, as an Unwind Fee, between JSCC as prescribed by JSCC¹²⁵.

9 In addition to the matters set forth in Paragraphs 1 through 8, matters necessary for the JSCC-Initiated Compression of Cleared Contracts shall be separately prescribed by JSCC.

Article 53-3. Request for Position Transfer of Proprietary Cleared Contracts of Clearing Participant

1 A Clearing Participant may, in accordance with the provisions set forth in this Article and Article 53-4, have all or a part of Proprietary Cleared Contracts existing between such Clearing Participant and JSCC succeeded to by a Successor Clearing Broker.

2 When requesting the Position Transfer to JSCC pursuant to the provisions of Paragraph 1, the relevant Clearing Participant shall ask the Successor Clearing Broker to accept such Position Transfer and obtain its consent in advance.

3 When the Successor Clearing Broker accepts the Position Transfer of the Proprietary Cleared Contracts set forth in Paragraph 2 and has received the request form therefor from the Clearing Participant which is the party to the Proprietary Cleared Contracts (referred to as "Requesting Clearing Participant" in this Article and Article 53-4), it shall submit such request form to JSCC by 1:00 p.m. on the desired date of Position Transfer. Such request form shall state that the Requesting Clearing Participant and the Successor Clearing Broker have agreed to such Position Transfer.

Article 53-4. Completion of Position Transfer of Proprietary Cleared Contracts

1 Upon receipt of the request for Position Transfer made in accordance with the

¹²⁴ cf. Handling Procedures of IRS Clearing Business, Article 30-4-2.2.

¹²⁵ cf. Handling Procedures of IRS Clearing Business, Article 30-4-2.6.

provisions of Article 53-3, JSCC will calculate the Margin Required to Clear on an assumption of completion of the Position Transfer of the Proprietary Cleared Contracts the Requesting Clearing Participant desires to Position Transfer to the Successor Clearing Broker (hereinafter referred to as "Position Transfer Requested Cleared Contracts") as of 4:00 p.m. on the Position Transfer Date (as defined in Paragraph 4.(1) below), as well as the Early Termination Charge and the amount to be paid upon Position Transfer in accordance with the rules prescribed by JSCC¹²⁶. JSCC shall accept the request for such Position Transfer, if JSCC can confirm that the Requesting Clearing Participant and the Successor Clearing Broker has deposited to JSCC the amount of such Margin Required to Clear no later than 4:00 p.m. on the Position Transfer Date and judges that there is no specific issue in position holding status of the Requesting Clearing Participant and the Successor Clearing Broker after the Position Transfer.

2 The Position Transfer of the Position Transfer Requested Cleared Contracts set forth in Article 53-3.1 shall have an effect of having the Successor Clearing Broker assume the claims and obligations that are identical, in terms and conditions separately designated by JSCC¹²⁷, to the claims and obligations under the Position Transfer Requested Cleared Contracts between the Requesting Clearing Participant and JSCC existing immediately before the termination of the Proprietary Cleared Contracts pursuant to the provisions of Paragraph 3 below as of the time when JSCC accepts the request for Position Transfer pursuant to the provisions of Paragraph 1:

3 Upon Position Transfer of the Position Transfer Requested Cleared Contracts pursuant to the provisions of Paragraphs 1 and 2, such Position Transfer Requested Cleared Contracts shall terminate as the matter of course as of the time when the claims and obligations set forth in Paragraph 2 come into effect, and the claims and obligations under the Position Transfer Requested Cleared Contracts shall cease to exist and have no future effect, except for those designated by JSCC¹²⁸.

4 When JSCC accepts, pursuant to the provisions of Paragraph 1, the request for Position Transfer as set forth in the provisions of Article 53-3, the Position Transfer Requested Cleared Contracts terminated pursuant to the provisions of Paragraph 3 shall be settled and the Position Transfer thereof shall occur in accordance with the following

¹²⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 30-3.

¹²⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 30-4.

¹²⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 35-4-2.

provisions:

(1) The claims and obligations prescribed in Paragraph 2 shall arise de novo between JSCC and the Successor Clearing Broker, on the date of such acceptance by JSCC (“Position Transfer Date”);

(2) The claims and obligations which arise pursuant to Item (1) shall be deemed as the claims and obligations under the Proprietary Cleared Contracts which are Cleared Contracts (Collateral Type) between the Successor Clearing Broker and JSCC which came into effect as a result of the request for Clearing by the Successor Clearing Broker; and

(3) When the Position Transfer Requested Cleared Contracts terminate pursuant to Paragraph 3 and the claims and obligations arise pursuant to the provisions of Item (1), JSCC, the Successor Clearing Broker and the Requesting Clearing Participant shall pay or receive the amount due at the time of the Position Transfer, the Early Termination Charge and Variation Margin in the manner prescribed by JSCC.

5 The provisions of the Rules shall apply to the claims and obligations which arise between JSCC and Successor Clearing Broker pursuant to the provisions of Paragraph 4 as if such claims and obligations are the Proprietary Cleared Contracts which are Cleared Contracts (Collateral Type) between the Successor Clearing Broker and JSCC.

Section 3 Special Provisions relating to Clearing Brokerage (Articles 54 – 58)

Article 54. Clearing Brokerage by Customer Belonging to Same Corporate Group as Clearing Broker

1 When a Customer in the same Corporate Group as the Clearing Broker (referred to as “Affiliated Customer” in this Article, Articles 55 and 57) intends to request such Clearing Broker to act as its Clearing Broker, it shall notify JSCC of the name of the Clearing Participant that will become the counterparty (“Designated Counterparty”) to the IRS Transaction to which its Clearing Broker executes and other matters prescribed by JSCC¹²⁹ in the manner set forth in the Subordinate Rules¹³⁰.

¹²⁹ cf. Handling Procedures of IRS Clearing Business, Article 31.2.

¹³⁰ cf. Handling Procedures of IRS Clearing Business, Article 31.1.

2 The Clearing Broker and the Affiliated Customer agree in advance that, when the notification given under Paragraph 1 arrives at JSCC, the Affiliated Customer shall be deemed to have requested the Clearing Brokerage in respect of the IRS Transaction set forth in Paragraph 1 and the Clearing Broker shall be deemed to have accepted such request at that time.

3 The provisions of Paragraph 2 shall not apply in any of the following events:

(1) In respect of the notification set forth in Paragraph 1:

- a. If JSCC has not received a letter of undertaking set forth in Article 43.2 from the Affiliated Customer submitted such notification, or such letter of undertaking is not effective;
- b. If new Clearing by the Clearing Broker subject to such notification for the Customer's Cleared Contracts on the book of the relevant Customer has been suspended, either entirely or partially;
- c. If the Clearing Brokerage Original Transaction which is the subject of such notification fails to satisfy the requirements separately prescribed by JSCC¹³¹; or
- d. Such notification fails to meet the conditions separately prescribed by JSCC.

(2) The contents of the notification set forth in Paragraph 1 are inconsistent with a separate agreement concerning limits on Clearing Brokerage made between a Clearing Broker and the Customer, provided that such agreement is notified to JSCC in the manner prescribed by JSCC, and the limits mentioned fell within the criteria set by JSCC¹³².

4 The notification set forth in Paragraph 1 by Affiliated Customer shall be deemed as its declaration, to the Clearing Participant or other Customer who is the counterparty to such Clearing Brokerage Original Transaction (referred to as "Original Counterparty")

¹³¹ *cf.* Handling Procedures of IRS Clearing Business, Article 32.

¹³² *cf.* Handling Procedures of IRS Clearing Business, Article 34.1.

in this paragraph, Paragraph 54-2 and in Article 58), of an agreement to terminate the Clearing Brokerage Original Transaction subject to the instruction to clear through Clearing Brokerage, provided that below listed conditions are met:

- (1) Based on the request and acceptance pursuant to the provisions of Paragraph 2, an Eligible IRS Transaction, identical to the Clearing Brokerage Original Transaction in the terms and conditions as separately prescribed by JSCC¹³³, comes into effect between such Clearing Broker and the Original Counterparty or a Clearing Participant acting on behalf of such Original Counterparty;
- (2) The Affiliated Customer and the Original Counterparty or a Clearing Participant acting on behalf of the Original Counterparty request Clearing for the Eligible IRS Transaction set forth in Item (1) to JSCC in accordance with the provisions of Article 48; and
- (3) The Clearing set forth in Item (2) becomes effective and the relevant Cleared Contracts come into effect.

5 When withdrawing its request for Clearing Brokerage set forth in Paragraph 1, the Affiliated Customer must also cancel its agreement to terminate the Clearing Brokerage Original Transaction set forth in Paragraph 4.

Article 54-2. Clearing Brokerage by Customer not Belonging to Same Corporate Group as Clearing Broker

1 The following provisions shall apply to Clearing Brokerage by a Customer who does not belong to the same Corporate Group as the Clearing Broker (referred to as “Unaffiliated Customer” in this Article, Articles 55-2 and 57-2).

- (1) The provisions of Article 54.1 shall apply *mutatis mutandis*. When applying Article 54.1, the term “Affiliated Customer” shall be replaced with “Unaffiliated Customer.”
- (2) The Clearing Broker and the Unaffiliated Customer shall agree in advance that, when the notification given under Item (1) arrives at JSCC, the Customer shall be deemed to have requested the Clearing Broker in respect of the IRS Transactions set forth in Item (1).

¹³³ cf. Handling Procedures of IRS Clearing Business, Article 34.2

(3) The provisions of Article 54.3 shall apply. When applying Article 54.3, the term “Affiliated Customer” shall be replaced with “Unaffiliated Customer.”

(4) The notification set forth in Paragraph 1 by Unaffiliated Customer shall be deemed as its declaration, to the Original Counterparty, of an agreement to terminate the Clearing Brokerage Original Transaction subject to instruction to clear through Clearing Brokerage, provided that below listed conditions are met:

- i. Based on the request pursuant to the provisions of Item (2), an Eligible IRS Transaction, identical to the Clearing Brokerage Original Transaction in the terms and conditions as separately prescribed by JSCC¹³⁴, comes into effect between such Clearing Broker and the Original Counterparty or a Clearing Participant acting on behalf of such Original Counterparty;
- ii. The provisions of Article 54.4.(2) shall apply. In applying Article 54.4.(2), the term “Affiliated Customer” shall be replaced with “Unaffiliated Customer.”
- iii. The provisions of Article 54.4.(3) shall apply. In applying Article 54.4.(3), the term “Affiliated Customer” shall be replaced with “Unaffiliated Customer.”

(5) The provisions of Article 54.5 shall apply. In applying Article 54.5., the term “Affiliated Customer” shall be replaced with “Unaffiliated Customer.”

2 Upon receipt of the notification set forth in Article 54.1 which applies to this Article as per provisions of Paragraph 1, JSCC shall inform the Clearing Broker of the contents of such notice as required according to its rules.

3 The Clearing Broker that has received the notification as set forth in Paragraph 2 shall advise JSCC of its decision as to whether or not it accepts such request for Clearing Brokerage.

4 Notwithstanding the provisions of Paragraphs 2 and 3 above, if a Clearing Broker notifies JSCC of its desire to skip the notifications set forth in Paragraphs 2 and

¹³⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 34.2.

3 above in a manner prescribed by JSCC¹³⁵, the Clearing Broker and the Customer agree in advance to the effect that the notification from JSCC to the Clearing Broker under Paragraph 2 and the notification of the acceptance from the Clearing Broker to JSCC under Paragraph 3 shall be deemed to have been given when the notification set forth in Article 54.1 to apply *mutatis mutandis* in accordance with the provisions of Paragraph 1 arrives at JSCC.

Article 55. Execution of Cleared Contracts according to Request for Clearing Brokerage by Customer in Same Corporate Group as Clearing Broker

1 When the notification specified in Article 54.1 arrives at JSCC and Clearing Brokerage is deemed to have been requested and accepted pursuant to Article 54.2, an IRS Transaction identical, in the terms and conditions prescribed by JSCC¹³⁶, to the Clearing Brokerage Original Transaction shall come into effect between the Clearing Broker who provides Clearing Brokerage services to the Affiliated Customer and the Designated Counterparty in the manner as separately prescribed by JSCC¹³⁷.

2 The Clearing Participants that will become parties to the IRS Transaction set forth in Paragraph 1 agree in advance that, when such IRS Transaction comes into effect pursuant to the provisions of Paragraph 1, the request for the Clearing in respect of such IRS Transaction shall be deemed to have been made to JSCC by each such Clearing Participant in accordance with the provisions of Article 48 at the time when such IRS Transaction comes into effect.

3 When a Customer's Cleared Contracts comes into effect, the Clearing Broker shall notify the relevant Affiliated Customer to that effect and the details thereof without delay.

4 In the event of termination of the Clearing Brokerage Contract or in any other event prescribed by JSCC¹³⁸, the Customer's Cleared Contract shall be treated as the Cleared Contract (Collateral Type) on the proprietary book of the Clearing Participant who is the party to the Customer's Cleared Contract after the point of time separately prescribed by JSCC¹³⁹.

¹³⁵ cf. Handling Procedures of IRS Clearing Business, Article 31-2.

¹³⁶ cf. Handling Procedures of IRS Clearing Business, Article 34.2.

¹³⁷ cf. Handling Procedures of IRS Clearing Business, Article 33.

¹³⁸ cf. Handling Procedures of IRS Clearing Business, Article 35.1.

¹³⁹ cf. Handling Procedures of IRS Clearing Business, Article 35.2.

5 If the Clearing Broker acting on behalf of the Affiliated Customer and the Designated Counterparty are the same entity, for the purpose of the Rules, the Clearing Broker acting in the capacity of the Designated Counterparty shall be deemed as a separate Clearing Participant.

6 Once a Customer's Cleared Contract comes into effect following a Customer instruction to a Clearing Broker, neither the Affiliated Customer nor the Clearing Broker may assert any right against each other, as the counterparty to the Clearing Brokerage Contract, in respect of the Clearing Brokerage Original Transaction or the IRS Transaction to come into effect between the Clearing Broker and the Designated Counterparty pursuant to the provisions of Paragraph 1, or claims and obligations thereunder, even if there are any grounds entitling it to assert such right against the Clearing Participant or the Affiliated Customer who is the counterparty thereto, including but not limited to the existence of the IRS Transaction, defects in any declaration of its intention or failure to declare its intention.

Article 55-2. Execution of Cleared Contracts according to Request for Clearing Brokerage by Customer not Belonging to Same Corporate Group as Clearing Broker

The following provisions shall apply.

(1) When the Clearing Broker advises JSCC of its acceptance of an Unaffiliated Customer's request for Clearing Brokerage pursuant to the provisions of Article 54-2.3 or is deemed to have advised JSCC of its acceptance of an Unaffiliated Customer's request for Clearing Brokerage pursuant to the provisions of Article 54-2.4, an IRS Transaction identical, in terms of the terms and conditions separately prescribed by JSCC¹⁴⁰, to the Clearing Brokerage Original Transaction shall come into effect between the Clearing Broker who provides Clearing Brokerage services to the Unaffiliated Customer and the Designated Counterparty in the manner as separately prescribed by JSCC¹⁴¹.

(2) The provisions of Article 55.2 shall apply.

(3) The provisions of Article 55.3 shall apply. In applying Article 55.3, the term

¹⁴⁰ cf. Handling Procedures of IRS Clearing Business, Article 34.2.

¹⁴¹ cf. Handling Procedures of IRS Clearing Business, Article 33.

“Affiliated Customer” shall be replaced with “Unaffiliated Customer.”

(4) The provisions of Article 55.4 shall apply.

(5) The provisions of Article 55.5 shall apply. In applying Article 55.5, the term “Affiliated Customer” shall be replaced with “Unaffiliated Customer.”

(6) The provisions of Article 55.6 shall apply. In applying Article 55.6, the term “Affiliated Customer” shall be replaced with “Unaffiliated Customer.”

Article 55-3. Customer’s Application for Exchanging Mark-to-Market Difference And Adjustment Amount of Customer’s Cleared Contract

1 In respect of a Customer’s Cleared Contract, when a Customer intends to instruct the Clearing Broker to apply for exchanging Mark-to-Market Difference And Adjustment Amount or give instruction to withdraw its Application for Exchanging Mark-to-Market Differences And Adjustment Amount it shall notify its Clearing Broker of such intention in the manner agreed between the Customer and its Clearing Broker.

2 Upon receipt of the notification set forth in Paragraph 1, the Clearing Broker shall apply for exchanging Mark-to-Market Difference And Adjustment Amount, or withdraw the Application for Exchanging Mark-to-Market Difference And Adjustment Amount, of the Customer’s Cleared Contracts in question to JSCC pursuant to the provisions of Article 51-2.1 or 4.

Article 56. Attribution of Profits and Losses Resulting from Customer’s Cleared Contract

1 All profits and losses resulting from Customer’s Cleared Contracts shall attribute to the Customer.

2 When a Clearing Broker receives the Fixed Amount, Floating Amount or any other Funds, other than Margin, from JSCC in respect of any Customer’s Cleared Contract, such Clearing Broker shall deliver such Funds to the relevant Customer.

3 When a Clearing Broker owes obligations to pay Funds to JSCC in respect of any Customer’s Cleared Contract, the Customer shall pay such Funds to the relevant Clearing Broker.

Funds referred to in the preceding sentence do not include Margin, the Special Clearing Charge Collateral, clearing fees, and the Special Clearing Charge.

Article 56-2. Customer's Request for Per Trade Compression of Customer's Cleared Contract

1 In respect of a Customer's Cleared Contract, when a Customer intends to give instruction to apply for Per Trade Compression or give instruction to withdraw its application for Per Trade Compression, it shall notify its Clearing Broker of such intention in the manner agreed between the Customer and its Clearing Broker.

2 Upon receipt of the notification set forth in Paragraph 1, the Clearing Broker shall apply for Per Trade Compression, or withdraw an application for Per Trade Compression, of the Customer's Cleared Contracts in question to JSCC pursuant to the provisions of Article 53.1 or Article 53.5.

Article 56-3. Customer's Request for Blended Rates Compression of Customer's Cleared Contract

1 In respect of a Customer's Cleared Contract, when a Customer intends to give instruction to apply for Blended Rates Compression or give instruction to withdraw its application for Blended Rates Compression, it shall notify its Clearing Broker of such intention in the manner agreed between the Customer and its Clearing Broker.

2 Upon receipt of the notification set forth in Paragraph 1, the Clearing Broker shall apply for Blended Rates Compression, or withdraw an application for Blended Rates Compression, of the Customer's Cleared Contracts in question to JSCC pursuant to the provisions of Article 53-2.1 or Article 53-2.5.

Article 57. Application for Vendor-Initiated Compression in respect of Customer's Cleared Contracts Executed by Customer in Same Corporate Group as Clearing Broker

1 When an Affiliated Customer intends to instruct the Clearing Broker to apply for Vendor-Initiated Compression, it shall notify such effect to JSCC in the method prescribed by JSCC¹⁴².

¹⁴² cf. Handling Procedures of IRS Clearing Business, Article 35-2.1.

2 The Clearing Broker and the Affiliated Customer shall agree in advance that, when the notification set forth in Paragraph 1 arrives at JSCC, the Affiliated Customer shall be deemed to have given instruction to the Clearing Broker to apply for Vendor-Initiated Compression, and the Clearing Broker shall be deemed to have accepted such instruction and made application, at that time.

Article 57-2. Application for Vendor-Initiated Compression in respect of Customer's Cleared Contracts Executed by Customer not in Same Corporate Group as Clearing Broker

1 The following provisions shall apply except that the term "Affiliated Customer" shall be replaced with "Unaffiliated Customer" and otherwise *mutatis mutandis*.

(1) The provisions of Article 57.1 shall apply.

(2) The provisions of Article 57.2 shall apply.

(3) The Clearing Broker and the Customer shall agree in advance that, when the notification set forth in Item (1) arrives at JSCC, the Unaffiliated Customer shall be deemed to have given instruction to the Clearing Broker to apply for Vendor-Initiated Compression, at that time.

2 Upon receipt of the notification set forth in Article 57.1 which applies to this Article as per provisions of Paragraph 1, JSCC shall notify such substance as prescribed by JSCC¹⁴³ of such notice to the Clearing Broker.

3 The Clearing Broker who has received the notification set forth in Paragraph 2 shall notify JSCC of its decision as to whether or not it accepts the instruction to apply for such Vendor-Initiated Compression so notified.

Article 57-3. Application for Member-Initiated Compression in respect of Customer's Cleared Contracts Executed by Customer in Same Corporate Group as Clearing Broker

1 When an Affiliated Customer intends to instruct the Clearing Broker to apply for Member-Initiated Compression, it shall notify such effect to JSCC in the method

¹⁴³ *cf.* Handling Procedures of IRS Clearing Business, Article 35-2.2.

prescribed by JSCC¹⁴⁴.

2 The Clearing Broker and the Affiliated Customer shall agree in advance that, when the notification set forth in Paragraph 1 arrives at JSCC, the Affiliated Customer shall be deemed to have given instruction to the Clearing Broker to apply for Member-Initiated Compression, and the Clearing Broker shall be deemed to have accepted such instruction and made application, at that time.

Article 57-4. Application for Member-Initiated Compression in respect of Customer's Cleared Contracts Executed by Customer not in Same Corporate Group as Clearing Broker

1 The following provisions shall apply except that the term "Affiliated Customer" shall be replaced with "Unaffiliated Customer" and otherwise *mutatis mutandis*.

(1) The provisions of Article 57-3.1 shall apply.

(2) The provisions of Article 57-3.2 shall apply.

(3) The Clearing Broker and the Customer shall agree in advance that, when the notification set forth in Item (1) arrives at JSCC, the Unaffiliated Customer shall be deemed to have given instruction to the Clearing Broker to apply for Member-Initiated Compression, at that time.

2 Upon receipt of the notification set forth in Article 57-3.1 which applies to this Article as per provisions of Paragraph 1, JSCC shall notify such substance as prescribed by JSCC¹⁴⁵ of such notice to the Clearing Broker.

3 The Clearing Broker who has received the notification set forth in Paragraph 2 shall notify JSCC of its decision as to whether or not it accepts the instruction to apply for such Member-Initiated Compression so notified.

Article 57-5. Customer's Application for JSCC-Initiated Compression of Customer's Cleared Contracts

¹⁴⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 35-2-2.1.

¹⁴⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 35-2-2.2.

1 In respect of Customer's Cleared Contracts, when a Customer intends to give instruction to express its intention of utilization of the JSCC-Initiated Compression, give instruction to apply for the JSCC-Initiated Compression in respect of its Customer's Cleared Contracts, give instruction to withdraw its application or give instruction to agree to the JSCC-Initiated Compression, the Customer shall notify its Clearing Broker of such intention in the manner separately agreed between the Customer and its Clearing Broker.

2 Upon receipt of the notification set forth in Paragraph 1, the Clearing Broker shall express the intention of utilization of the JSCC-Initiated Compression, apply for the JSCC-Initiated Compression in respect of the Customer's Cleared Contracts, withdraw the relevant application or agree to the JSCC-Initiated Compression to JSCC in respect of the Customer's Cleared Contracts subject such notice, pursuant to the provisions of Articles 53-2-4.1, 53-2-4.2, 53-2-4.4 or 53-2-4.7.

Article 58. Agreed-upon Termination of Clearing Brokerage Original Transaction

1 A Clearing Brokerage Original Transaction set forth in Article 54.4 or Article 54-2.1.(4) and any claims and obligations thereunder shall, upon termination thereof by agreement between the Customer who is the party to such Clearing Brokerage Original Transaction and the Original Counterparty in accordance with the provisions of Article 54.4 or Article 54-2.1.(4) and other provisions of the Rules, cease to exist and have no future effect at the time when the Cleared Contracts come into effect as set forth in Article 54.4.(3) or Article 54-2.1.(4).iii, provided that following obligations shall remain effective after such termination:

- (1) Payment obligations for the Fixed Amount and the Floating Amount which have already become due at the time when such Cleared Contracts come into effect; and
- (2) Obligations that have already accrued at the time of the execution of such Cleared Contracts, in addition to those listed in Item (1).

2 The Customer and the Original Counterparty shall have no obligation to pay any fees, damages or other money in relation to the agreed-upon termination set forth in Paragraph 1 except for those listed in each item of Paragraph 1.

3 In the event of any inconsistency or conflict between the agreement between the Customer and the Original Counterparty and the provisions of this Article, the provisions of this Article shall prevail.

Section 4 Position Transfer (Articles 58-2 – 58-7)

Article 58-2. Request for Position Transfer of Customer's Cleared Contracts

1 A Customer with respect to whom no Event of Default set forth in the Clearing Brokerage Agreement has occurred and who has completed deposit or payment to the Clearing Broker of the Cash Settlement Amount related to Foreign Currency Cleared Contracts recorded on the Customer Account established for such Customer may, in accordance with the provisions set forth in this Article and Article 58-3, have all or a part of Customer's Cleared Contracts existing on its book transferred from the Clearing Broker, who is a party to such Customer's Cleared Contracts and corresponding Clearing Brokerage Contract, to a Successor Clearing Broker.

2 A Successor Clearing Broker must have concluded the Clearing Brokerage Agreement with the relevant Customer.

3 In the event of the Position Transfer pursuant to the provisions of Paragraphs 1 and 2, the relevant Customer shall ask the Successor Clearing Broker to accept such Position Transfer and obtain its consent in advance. Then, the Customer shall notify the Clearing Broker ("Carrying Clearing Broker") who is the party to the Customer's Cleared Contracts that will be so transferred (referred to as the "Relevant Cleared Contracts" in this Section) at the time of such Position Transfer to the effect that it will request such Position Transfer.

4 When the Successor Clearing Broker accepts the Position Transfer set forth in Paragraph 3 and has received the request form therefor from the Customer requesting such Position Transfer, it shall submit such request form to JSCC by 1:00 p.m. on the desired date of Position Transfer. Such request form shall state, among other things, the effect that the Successor Clearing Broker has received the request to accept the Position Transfer and it has consented to accept such Position Transfer; that the Customer has notified the Carrying Clearing Broker that it desires such Position Transfer and is requesting such Position Transfer to JSCC; and that the Successor Clearing Broker is submitting the request form for such Position Transfer to JSCC.

Article 58-3. Completion of Position Transfer of Customer's Cleared Contract

1 Upon receipt of the request for Position Transfer made in accordance with the provisions of Article 58-2, JSCC will calculate the Margin Required to Clear on an assumption of completion of the Position Transfer of the Relevant Cleared Contracts as of 4:00 p.m. on the Position Transfer Date, as well as the Early Termination Charge and the amount to be paid upon Position Transfer in accordance with the rules prescribed by JSCC¹⁴⁶. JSCC shall accept the request for such Position Transfer, if JSCC can confirm that such Successor Clearing Broker and Carrying Clearing Broker has deposited or delivered to JSCC the amount of such Margin Required to Clear no later than 4:00 p.m. on the Position Transfer Date and judges that there is no specific issue in position holding status of the Carrying Clearing Broker and the Successor Clearing Broker after the Position Transfer.

The amount of the Margin Required to Clear required to be deposited in the above sentence shall be the amount of the Margin Required to Clear so calculated minus the amount of Initial Margin deemed to have been deposited with JSCC by Successor Clearing Broker as an agent pursuant to the provisions of Paragraph 4.(4)

2 The Position Transfer set forth in Article 58-2.1 shall have an effect of having the Successor Clearing Broker assume all of the below listed claims and obligations under the Relevant Cleared Contracts as of the time when JSCC accepts the request for Position Transfer pursuant to the provisions of Paragraph 1:

(1) Claims and obligations that are identical, in terms and conditions separately designated by JSCC¹⁴⁷, to the claims and obligations under the Relevant Cleared Contracts between the Carrying Clearing Broker and JSCC existing immediately before the termination of the Relevant Cleared Contracts pursuant to the provisions of Paragraph 3 below; and

(2) Claims and obligations that are identical, in terms and conditions separately designated by JSCC¹⁴⁸, to the claims and obligations under the Clearing Brokerage Contracts between the Carrying Clearing Broker and the relevant Customer existing

¹⁴⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 35-3.

¹⁴⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 35-4.

¹⁴⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 35-4.

immediately before the termination of the Clearing Brokerage Contracts corresponding to the Relevant Cleared Contracts pursuant to the provisions of Paragraph 3 below.

3 Upon Position Transfer of the Relevant Cleared Contracts pursuant to the provisions of Paragraphs 1 and 2, such Relevant Cleared Contracts and the Clearing Brokerage Contracts corresponding thereto shall terminate as the matter of course as of the time when the Position Transfer of the claims and obligations set forth in Paragraph 2 becomes effective, and the claims and obligations under the Relevant Cleared Contracts and the Clearing Brokerage Contracts corresponding thereto shall cease to exist and have no future effect, except for those designated by JSCC¹⁴⁹.

4 When JSCC accepts, pursuant to the provisions of Paragraph 1, the request for Position Transfer as set forth in the provisions of Article 58-2, the Relevant Cleared Contracts terminated pursuant to the provisions of Paragraph 3 shall be settled and the Position Transfer thereof shall occur in accordance with the following provisions:

(1) The claims and obligations prescribed in each item of Paragraph 2 shall arise de novo among JSCC, the Successor Clearing Broker and the relevant Customer, as applicable, on the Position Transfer Date;

(2) The claims and obligations which arise pursuant to Item (1) shall be deemed as the claims and obligations under the Customer's Cleared Contracts which are Cleared Contracts (Collateral Type) and the corresponding Clearing Brokerage Contracts, both of which came into effect as a result of Clearing Brokerage by such Customer to such Successor Clearing Broker;

(3) When the Relevant Cleared Contracts and the corresponding Clearing Brokerage Contracts terminate pursuant to Paragraph 3 and the claims and obligations arise pursuant to the provisions of Item (1), JSCC, the Successor Clearing Broker, the Carrying Clearing Broker and the relevant Customer shall pay or receive the amount due at the time of the Position Transfer, the Early Termination Charge and Variation Margin in the manner prescribed in the Subordinate Rules; and

(4) If all claims and obligations specified in each item of Paragraph 2 are assumed, Initial Margin deposited pursuant to the provisions of Article 72 in which the relevant

¹⁴⁹ cf. Handling Procedures of IRS Clearing Business, Article 35-4-2.

Customer has the right to claim return pursuant to the provisions of Article 76 shall be deemed as Initial Margin that has been deposited with JSCC by such Customer through the Successor Clearing Broker acting as its agent, except for those for which notification to the effect of treating it as Initial Margin deposited with JSCC through Carrying Clearing Broker acting as agent has been given.

5 The provisions of the Rules shall apply to the claims and obligations which arise between JSCC and Successor Clearing Broker pursuant to the provisions of Paragraph 4 as if such claims and obligations are the Customer's Cleared Contracts which are Cleared Contracts (Collateral Type).

Article 58-4. Request for Transfer of Clearing Brokerage Contract of Customer

1 A Customer with respect to whom no Event of Default set forth in the Clearing Brokerage Agreement has occurred and who has completed deposit or payment to the Clearing Broker of the Cash Settlement Amount related to Foreign Currency Cleared Contracts recorded on the Customer Account established for such Customer (referred to in this Article and Article 58-5 as "Transferring Customer") may, in accordance with the provisions set forth in this Article and Article 58-5, Transfer all or a part of Clearing Brokerage Contracts existing between it and the Clearing Broker to a Clearing Participant (hereinafter referred to as "Receiving Clearing Participant") or another Customer (referred to as "Receiving Customer" in this Article and Article 58-5).

2 When Transferring Clearing Brokerage Contracts to its Clearing Broker pursuant to the provisions of Paragraph 1, the Transferring Customer shall ask its Clearing Broker to accept such Transfer, and shall obtain consent of such Clearing Broker in advance. When Transferring Clearing Brokerage Contracts to a Receiving Clearing Participant other than its Clearing Broker pursuant to the provisions of Paragraph 1, the Transferring Customer shall ask its Clearing Broker and the Receiving Clearing Participant to accept such Transfer, and shall obtain their consent in advance. When Transferring Clearing Brokerage Contracts to a Receiving Customer pursuant to the provisions of Paragraph 1, the Transferring Customer shall ask its Clearing Broker, the Receiving Customer and the Clearing Broker for the Receiving Customer to accept such Transfer, and shall obtain their consents in advance.

3 When the Clearing Broker for the Transferring Customer, or the Clearing Broker for the Transferring Customer and the Receiving Clearing Participant, or the Clearing

Broker for the Transferring Customer, the Receiving Customer and the Clearing Broker for the Receiving Customer, as applicable, consents to the Transfer of Clearing Brokerage Contracts as set forth in Paragraph 2 and receives the request form therefor from the Transferring Customer, it (or they) shall submit such request form to JSCC by 1:00 p.m. on the desired date of Transfer. Such request form shall state that all the relevant parties involved in the Transfer have agreed to such Transfer.

Article 58-5. Completion of Transfer of Clearing Brokerage Contract

1 Upon receipt of the request for Transfer made in accordance with the provisions of Article 58-4.3, JSCC will calculate Margin Required to Clear on an assumption of completion of the Transfer of the Clearing Brokerage Contracts as of 4:00 p.m. on the desired date of transfer. JSCC shall accept the request for such Transfer, if JSCC can confirm that (i) in the case of a Transfer to Clearing Broker for the Transferring Customer, the Clearing Broker for the Transferring Customer has deposited or delivered the amount of such Margin Required to Clear to JSCC, (ii) in the case of a Transfer to the Receiving Clearing Participant other than the Clearing Broker for the Transferring Customer, the Clearing Broker for the Transferring Customer and the Receiving Clearing Participant have deposited or delivered the amount of such Margin Required to Clear to JSCC, or (iii) in the case of a Transfer to the Receiving Customer, the Clearing Broker for the Transferring Customer and the Clearing Broker for the Receiving Customer have deposited or delivered the amount of such Margin Required to Clear to JSCC, in each case no later than 4:00 p.m. on such date, and judges that (i) in the case of a Transfer to Clearing Broker for the Transferring Customer, there is no specific issue in position holding status of the Clearing Broker for the Transferring Customer after the Transfer, (ii) in the case of a Transfer to the Receiving Clearing Participant other than the Clearing Broker for the Transferring Customer, there is no specific issue in position holding status of the Clearing Broker for the Transferring Customer and the Receiving Clearing Participant after the Transfer, or (iii) in the case of a Transfer to the Receiving Customer, there is no specific issue in position holding status of the Clearing Broker for the Transferring Customer and the Clearing Broker for the Receiving Customer after the Transfer.

The amount of the Margin Required to Clear required to be deposited in the above sentence shall be the amount of the Margin Required to Clear so calculated minus the amount of Initial Margin deemed to have been deposited with JSCC by Receiving Customer through the Clearing Broker for the Receiving Customer acting as its agent or

Initial Margin deemed to have been deposited with JSCC by the Receiving Clearing Participant pursuant to the provisions of Paragraph 3.

2 Transfer of Clearing Brokerage Contracts shall come into effect at the time when JSCC accepts the request for the Transfer pursuant to the provisions of Paragraph 1.

3 Upon the Transfer of the Clearing Brokerage Contracts pursuant to the provisions of Paragraph 2, and only if all Clearing Brokerage Contracts are Transferred and Initial Margin have been deposited pursuant to the provisions of Article 72, Initial Margin to which the Transferring Customer has the right to claim return pursuant to the provisions of Article 76 shall be deemed as Initial Margin that has been deposited with JSCC by the Receiving Customer through the Clearing Broker for the Receiving Customer acting as its agent, or Initial Margin deposited with JSCC by the Receiving Clearing Participant if Clearing Brokerage Contracts are Transferred to the Receiving Clearing Participant, except for those for which notification to the effect of treating it as Initial Margin deposited by Transferring Customer with JSCC through the Clearing Broker for the Transferring Customer as its agent has been given.

4 For a Transfer of Clearing Brokerage Contracts to the Receiving Clearing Participant that is the Clearing Broker for the Transferring Customer, when the Transfer comes into effect pursuant to the provisions of Paragraph 2, the Clearing Brokerage Contracts between the Transferring Customer and the Clearing Broker for the Transferring Customer subject to the Transfer shall terminate as a matter of course and the claims and obligations under such Clearing Brokerage Contracts other than those prescribed by JSCC¹⁵⁰ shall have no future effect. For a Transfer of Clearing Brokerage Contracts to the Receiving Clearing Participant other than the Clearing Broker for the Transferring Customer, when the Transfer comes into effect pursuant to the provisions of Paragraph 2, the Clearing Brokerage Contracts between the Transferring Customer and the Clearing Broker for the Transferring Customer subject to the Transfer and the Customer's Cleared Contracts corresponding to the said Clearing Brokerage Contracts shall terminate as a matter of course and the claims and obligations thereunder other than those prescribed by JSCC¹⁵¹ shall cease to exist and have no future effect, and at the same time, the claims and obligations that are identical, in terms

¹⁵⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 35-4-2.

¹⁵¹ *cf.* Handling Procedures of IRS Clearing Business, Article 35-4-2.

and conditions separately designated by JSCC¹⁵², to the claims and obligations under the Customer's Cleared Contracts that shall terminate pursuant to the provisions of this paragraph shall arise between the Receiving Clearing Participant and JSCC.

5 In the case of a Transfer to the Receiving Clearing Participant other than the Clearing Broker for the Transferring Customer, JSCC shall calculate the amount to be paid upon Transfer and the Early Termination Charge, and, in association with the termination of the Customer's Cleared Contracts and the coming into effect of the claims and obligations as set forth in Paragraph 4, JSCC, the Clearing Broker for the Transferring Customer and the Receiving Clearing Participant shall pay or receive the amount to be paid upon Transfer, the Early Termination Charge and Variation Margin in the manner prescribed by JSCC.

6. For a Transfer of Clearing Brokerage Contracts to the Receiving Customer whose Clearing Broker is the same as the Clearing Broker for the Transferring Customer, when the Transfer comes into effect pursuant to the provisions of Paragraph 2, the Clearing Brokerage Contracts between the Transferring Customer and the Clearing Broker for the Transferring Customer subject to the Transfer shall terminate as a matter of course and the claims and obligations under the said Clearing Brokerage Contracts other than those prescribed by JSCC¹⁵³ shall cease to exist and have no future effect and, at the same time, the legal relationship with the same terms and conditions as the said Clearing Brokerage Contracts shall come into effect between the Receiving Customer and the Clearing Broker for the Receiving Customer. For a Transfer of Clearing Brokerage Contracts to the Receiving Customer whose Clearing Broker is not the same as the Clearing Broker for the Transferring Customer, when the Transfer comes into effect pursuant to the provisions of Paragraph 2, the Clearing Brokerage Contracts between the Transferring Customer and the Clearing Broker for the Transferring Customer and the Customer's Cleared Contracts corresponding to the said Clearing Brokerage Contracts shall terminate as a matter of course and the claims and obligations thereunder other than those prescribed by JSCC¹⁵⁴ shall cease to exist and have no future effect, and at the same time, the legal relationship with the same terms and conditions as the said Clearing Brokerage Contracts shall come into effect between the Receiving Customer and the Clearing Broker for the Receiving Customer, and the claims

¹⁵² *cf.* Handling Procedures of IRS Clearing Business, Article 35-4-3

¹⁵³ *cf.* Handling Procedures of IRS Clearing Business, Article 35-4-2.

¹⁵⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 35-4-2.

and obligations identical, in terms and conditions separately designated by JSCC¹⁵⁵, to the claims and obligations under the Customer's Cleared Contracts that shall terminate pursuant to this paragraph shall come into effect between the Clearing Broker for the Receiving Customer and JSCC.

7. In case of the Transfer to the Receiving Customer whose Clearing Broker is not the same as the Clearing Broker for the Transferring Customer, JSCC shall calculate the amount to be paid upon Transfer and the Early Termination Charge, and, in association with the termination of the Customer's Cleared Contracts and the coming into effect of the legal relationship pursuant to the provisions of Paragraph 6, JSCC, the Clearing Broker for the Transferring Customer and the Clearing Broker for the Receiving Customer shall pay or receive the amount to be paid upon Transfer, the Early Termination Charge and Variation Margin in the manner prescribed by JSCC.

8. The claims and obligations between the Transferring Customer and the Clearing Broker for the Transferring Customer, or among the Transferring Customer, the Clearing Broker for the Transferring Customer and the Receiving Clearing Participant, or among the Transferring Customer, the Clearing Broker for the Transferring Customer, the Receiving Customer and the Clearing Broker for the Receiving Customer, as applicable, shall be settled among the relevant parties in accordance with their agreements.

9 When Transferring the Clearing Brokerage Contracts to the Receiving Clearing Participant, the provisions of the Rules shall apply by regarding the Customer's Cleared Contracts corresponding to the Clearing Brokerage Contracts which shall terminate pursuant to the first sentence of Paragraph 4, or in the case of a Transfer to the Receiving Clearing Participant other than the Clearing Broker for the Transferring Customer, the claims and obligations arising pursuant to the provisions of the second sentence of Paragraph 4, as the Proprietary Cleared Contracts of the Receiving Clearing Participant which are Cleared Contracts (Collateral Type).

10. When Transferring the Clearing Brokerage Contracts to a Receiving Customer, the provisions of the Rules shall apply by regarding the legal relationship that comes into effect between the Receiving Customer and the Clearing Broker for the Receiving Customer pursuant to Paragraph 6 as the Clearing Brokerage Contracts (Collateral Type) that come into effect through a brokerage to the Clearing Broker for the Receiving

¹⁵⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 35-4-3.

Customer by the Receiving Customer, and (i) in the case of a Transfer to the Receiving Customer whose Clearing Broker is the same as the Clearing Broker for the Transferring Customer, regarding the Customer's Cleared Contracts corresponding to the Clearing Brokerage Contracts that shall terminate pursuant to the provisions of the first sentence of Paragraph 6 as the Customer's Cleared Contracts which are Cleared Contracts (Collateral Type) that comes into effect on the book of the Receiving Customer, or (ii) in the case of a Transfer to the Receiving Customer whose Clearing Broker is not the same as the Clearing Broker for the Transferring Customer, regarding the claims and obligations arising between the Clearing Broker for the Receiving Customer and JSCC pursuant to the provisions of the second sentence of Paragraph 6 as the Customer's Cleared Contracts which are Cleared Contracts (Collateral Type) that comes into effect on the book of the Receiving Customer.

Article 58-6. Request for Transfer of Proprietary Cleared Contracts of Clearing Participant

1 A Clearing Participant (referred to as "Transferring Clearing Participant" in this Article and Article 58-7) may, in accordance with the provisions set forth in this Article and Article 58-7, Transfer all or a part of the Proprietary Cleared Contracts existing between it and JSCC to a Customer (referred to as "Receiving Customer" in this Article and Article 58-7).

2 When Transferring the Proprietary Cleared Contracts to a Receiving Customer, for whom the Transferring Clearing Participant is acting as Clearing Broker, pursuant to the provisions of Paragraph 1, such Transferring Clearing Participant shall ask the Receiving Customer to accept such Transfer, and shall obtain consent of such Receiving Customer in advance. When Transferring the Proprietary Cleared Contracts to a Receiving Customer, for whom another Clearing Participant is acting as Clearing Broker, pursuant to the provisions of Paragraph 1, such Transferring Clearing Participant shall ask the Receiving Customer and the Clearing Participant which is acting as a Clearing Broker for the Receiving Customer to accept such Transfer, and shall obtain their consents in advance.

3 When the Transferring Clearing Participant obtains consent to the Transfer of the Proprietary Cleared Contracts from the Receiving Customer, or the Receiving Customer and the Clearing Broker for the Receiving Customer, as applicable, as set forth in Paragraph 2, it shall submit the request form to JSCC by 1:00 p.m. on the desired date

of Transfer. Such request form shall state that all the relevant parties involved in the Transfer have agreed to such Transfer.

Article 58-7 Completion of Transfer of Proprietary Cleared Contracts of Clearing Participant

1 Upon receipt of the request for Transfer made in accordance with the provisions of Article 58-6.3, JSCC will calculate Margin Required to Clear on an assumption of completion of the Transfer of the Proprietary Cleared Contracts the Transferring Clearing Participant desires Transfer to the Receiving Customer as of 4:00 p.m. on the desired date of Transfer. JSCC shall accept the request for such Transfer, if JSCC can confirm that (i) in case of the Transfer to its Customer, the Transferring Clearing Participant has deposited or delivered the amount of such Margin Required to Clear to JSCC, or (ii) in case of the Transfer to the Receiving Customer whose Clearing Broker is another Clearing Participant, the Transferring Clearing Participant and the Clearing Broker for the Receiving Customer have deposited or delivered the amount of such Margin Required to Clear to JSCC, no later than 4:00 p.m. on such date and judges that there is no specific issue in position holding status of the Transferring Clearing Participant (or, in case of the Transfer to the Receiving Customer whose Clearing Broker is another Clearing Participant, position holding status of the Transferring Clearing Participant and the Clearing Broker for the Receiving Customer) after the Transfer.

The amount of the Margin Required to Clear required to be deposited or delivered in the above sentence shall be the amount of the Margin Required to Clear so calculated minus the amount of Initial Margin deemed to have been deposited with JSCC by the Receiving Customer through the Clearing Broker for the Receiving Customer acting as its agent pursuant to the provisions of Paragraph 3.

2 Transfer of Proprietary Cleared Contracts shall come into effect at the time when JSCC accepts the request for the Transfer pursuant to the provisions of Paragraph 1.

3 Upon Transfer of the Proprietary Cleared Contracts pursuant to the provisions of Paragraph 2, Initial Margin related to the Proprietary Cleared Contracts to which the Transferring Clearing Participant has the right to claim return pursuant to the provisions of Article 76 shall be deemed as Initial Margin that has been deposited with JSCC by the Receiving Customer through the Clearing Broker for the Receiving Customer acting as its agent, except for those for which notification to the effect of treating it as Initial Margin

deposited by the Transferring Clearing Participant with JSCC has been given when all of the Proprietary Cleared Contracts are Transferred.

4 Upon Transfer of the Proprietary Cleared Contracts pursuant to the provisions of Paragraph 2, the legal relationship with the same economic effect as the relevant Proprietary Cleared Contracts (other than claims and obligations designated by JSCC to be excluded) shall come into effect between the Receiving Customer and the Clearing Broker for the Receiving Customer. In this case, when the Proprietary Cleared Contracts are Transferred to a Receiving Customer whose Clearing Broker is another Clearing Participant, such Proprietary Cleared Contracts shall terminate as a matter of course, and the claims and obligations other than those prescribed by JSCC under the relevant Proprietary Cleared Contract shall cease to exist and have no future effect, and at the same time, the claims and obligations that are identical, in terms and conditions separately designated by JSCC¹⁵⁶, to the claims and obligations of such Proprietary Cleared Contracts shall arise between the Clearing Broker for the Receiving Customer and JSCC.

5 The settlement of the claims and obligations between a Transferring Clearing Participant and a Receiving Customer (or, in case of a Transfer to a Receiving Customer whose Clearing Broker is another Clearing Participant, among a Transferring Clearing Participant, a Receiving Customer and a Clearing Broker for the Receiving Customer) required in association with the Transfer of the Proprietary Cleared Positions shall be performed between the relevant parties in accordance with their agreements.

6 In case of a Transfer to a Receiving Customer whose Clearing Broker is another Clearing Participant, JSCC shall calculate the amount to be paid upon Transfer and the Early Termination Charge, and, in association with the termination of the Proprietary Cleared Contracts and the coming into effect of the claims and obligations pursuant to the provisions of Paragraph 4, JSCC, the Transferring Clearing Participant and the Clearing Broker for the Receiving Customer shall pay or receive the amount to be paid upon Transfer, the Early Termination Charge and Variation Margin in the manner prescribed by JSCC.

7 The provisions of the Rules shall apply by regarding the legal relationship that comes into effect pursuant to the provisions of the first sentence of Paragraph 4 as

¹⁵⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 35-4-3.

Clearing Brokerage Contracts (Collateral Type) executed through the Clearing Brokerage by the Receiving Customer to the Clearing Broker for the Receiving Customer and by regarding the Proprietary Cleared Contractss for which Transfer is requested pursuant to the provisions of Paragraph 1 (or, in case of a Transfer to a Receiving Customer whose Clearing Broker is another Clearing Participant, the claims and obligations arising pursuant to the provisions of the second sentence of Paragraph 4) as the Customer's Cleared Contracts corresponding to the relevant Clearing Brokerage Contracts which are Cleared Contracts (Collateral Type).

Chapter 5 Clearing Participant Account (Articles 59 – 60)

Article 59. Clearing Participant Account

1 To manage Initial Margin, Variation Margin and Mark-to-Market Difference, in respect of each Cleared Contract to which each Clearing Participant is a party and other Funds to be paid or received in respect of such Cleared Contract between JSCC and each Clearing Participant in accordance with the Rules, JSCC shall set up an account for each Clearing Participant ("Clearing Participant Account") on which each of such Cleared Contract and Positions in JGB Futures Contracts and Interest Rate Futures Contracts covered by Cross Margining are recorded.

2 A Clearing Participant Account shall be divided into the account to record the Cleared Contracts on a Clearing Participant's proprietary book and Positions in JGB Futures Contracts and Interest Rate Futures Contracts on the Clearing Participant's book covered by Cross Margining ("Proprietary Account") and the accounts to record, by each Clearing Brokerage Agreement, the Cleared Contracts on Customers' book and Positions in JGB Futures Contracts and Interest Rate Futures Contracts on the Customer's book covered by Cross Margining ("Customer Accounts"). For this purpose, JSCC may not use one Customer Account for multiple Customers or for multiple Clearing Brokerage Agreements of one Customer.

3 JSCC may divide the Proprietary Account set up for a Clearing Participant into multiple accounts when requested by such Clearing Participant.

4 A Clearing Participant shall, if it opens multiple accounts which divide a Clearing Brokerage Account pursuant to the provisions of Article 60.2, request that JSCC divide a Customer Account in the same manner, and JSCC shall set up multiple accounts to

divide the Customer Account based on such request.

5 For multiple accounts which are set for the Proprietary Account or Customer Accounts in accordance with Paragraphs 3 and 4 (“Sub-Accounts”), JSCC shall book Cleared Contracts and Positions in JGB Futures Contracts and Interest Rate Futures Contracts covered by Cross Margining to the relevant Sub-Account according to the designations made by the relevant Clearing Participant.

6 The claims and obligations between JSCC and a Clearing Participant and the claims and obligations between JSCC and a Customer in relation to each Cleared Contract, Positions in JGB Futures Contracts and Interest Rate Futures Contracts covered by Cross Margining, Initial Margin, Variation Margin and Mark-to-Market Difference related thereto shall arise separately for the Proprietary Account and each of the Customer Accounts.

7 A Clearing Participant shall request that its Customer notify whether its Customer Account is Hedge Account or Non-hedge Account, in the manner as separately prescribed by JSCC¹⁵⁷, and shall notify JSCC thereof. A Customer shall also give notice to the Clearing Participant when it changes the types of its Customer Account.

Article 60. Clearing Brokerage Account

1 A Clearing Broker shall set up an account for each Clearing Brokerage Agreement executed with a Customer (“Clearing Brokerage Account”) to manage the details of Clearing Brokerage Contracts under each Clearing Brokerage Agreement, Positions in JGB Futures Contracts and Interest Rate Futures Contracts on the Customer’s book covered by Cross Margining, Initial Margins, Customer Initial Margins, Variation Margins and Mark-to-Market Differences related to such Clearing Brokerage Contracts and other Funds to be paid or received between the Clearing Broker and the Customer in accordance with each of such Clearing Brokerage Agreements and the Rules.

2 Upon request of a Customer, a Clearing Broker may set up multiple accounts dividing the Clearing Brokerage Account for the Customer.

3 The claims and obligations between a Clearing Broker and a Customer in

¹⁵⁷ cf. Handling Procedures of IRS Clearing Business, Article 35-5.

relation to each Clearing Brokerage Contract, Positions in JGB Futures Contracts and Interest Rate Futures Contracts on the Customer's book covered by Cross Margining, Initial Margin, Variation Margin and Mark-to-Market Difference related thereto shall arise separately for each of the Clearing Brokerage Accounts.

Chapter 6 Margin, etc.

Section 1 General Provisions (Articles 61 – 62)

Article 61. Purpose of Margin

1 Margin shall be paid or received among JSCC, a Clearing Participant and a Customer pursuant to the Rules and the Clearing Brokerage Agreement to secure performance of below listed obligations (referred to as "Obligations to be Collateralized" in Paragraph 2 below) according to the classification of Margin listed below:

(1) Initial Margin:

Obligations that a Clearing Participant owes to JSCC in relation to Cleared Contracts, including the obligation arising out of termination of such Cleared Contracts, and obligations that a Clearing Participant owes to JSCC in relation to Cross Margined JGB Futures Cleared Contracts and Cross Margined Interest Rate Futures Cleared Contracts recorded on the Clearing Participant Account, and obligations that a Customer owes to a Clearing Broker in relation to Clearing Brokerage Contracts, including the obligation arising out of termination of such Cleared Contracts, and obligations that a Customer owes to a Clearing Broker in relation to Cross Margined JGB Futures Cleared Contracts and Cross Margined Interest Rate Futures Cleared Contracts recorded on the Customer Account established for the relevant Customer;

(2) Customer Initial Margin:

The obligations that a Customer owes to a Clearing Broker in relation to a Clearing Brokerage Contract, including the obligation arising out of termination of such Clearing Brokerage Contract, and obligations that a Customer owes to a Clearing Broker in relation to Cross Margined JGB Futures Cleared Contracts and Cross Margined Interest Rate Futures Cleared Contracts recorded on the Customer Account established for the relevant Customer;

- (3) Variation Margin paid or received between JSCC and each Clearing Participant in relation to Proprietary Cleared Contracts:
Obligations that a Clearing Participant owes to JSCC in relation to Proprietary Cleared Contracts which are Cleared Contracts (Collateral Type) or obligations that JSCC owes to a Clearing Participant in relation to Proprietary Cleared Contracts which are Cleared Contracts (Collateral Type);
- (4) Variation Margin paid or received between JSCC and each Clearing Broker in relation to Customer's Cleared Contracts:
Obligations that a Clearing Broker owes to JSCC in relation to Customer's Cleared Contracts which are Cleared Contracts (Collateral Type) or obligations that JSCC owes to a Clearing Broker in relation to Customer's Cleared Contracts which are Cleared Contracts (Collateral Type);
- (5) Variation Margin paid or received between a Clearing Broker and a Customer in relation to a Clearing Brokerage Contracts:
Obligations that a Customer owes to a Clearing Broker in relation to Clearing Brokerage Contracts (Collateral Type) or obligations that a Clearing Broker owes to a Customer in relation to Clearing Brokerage Contracts (Collateral Type).

2 JSCC, a Clearing Participant or a Customer who has received a deposit of Margin may use the Margin remaining after deducting costs required for conversion of Cash into another currency or after the payment of the cost of liquidation of Eligible Securities Collateral to satisfy the Obligations to be Collateralized or to set off the right to claim a return of Margin or the said cash proceeds against the claims related to the Obligations to be Collateralized in the equivalent amounts in accordance with the Rules and the Clearing Brokerage Agreement.

3 Unless otherwise specified in the Rules, deposit of Margin shall constitute a deposit for consumption (*shohi kitaku*) for collateral purpose in the case of Margin in the form of Cash; and a loan for consumption (*shohi taishaku*) free of charge for collateral purpose in the case of Margin in the form of Eligible Securities Collateral.

Article 61-2 Purpose of Mark-to-Market Difference

1 Mark-to-Market Difference shall be paid or received among JSCC, a Clearing

Participant and a Customer pursuant to the Rules and the Clearing Brokerage Agreement to settle exposure related to the change in present value of Clearing Contracts (Settlement Type) or Clearing Brokerage Contracts (Settlement Type) listed in the following items according to the classification of Mark-to-Market Difference set forth in the items below;

(1) Mark-to-Market Difference paid or received between JSCC and each Clearing Participant in relation to Proprietary Cleared Contracts

Exposure related to the change in present value of the Proprietary Cleared Contracts of Clearing Contracts (Settlement Type);

(2) Mark-to-Market Difference paid or received between JSCC and each Clearing Broker in relation to Customer's Cleared Contracts

Exposure related to the change in present value of the Customer's Cleared Contracts of Clearing Contracts (Settlement Type); and

(3) Mark-to-Market Difference paid or received between a Clearing Broker and a Customer in relation to Clearing Brokerage Contracts

Exposure related to the change in present value of Clearing Brokerage Contracts of Clearing Brokerage Contracts (Settlement Type)

2 At the time prescribed in Article 78-2, Paragraph 2, the Net Present Value of the Cleared Contracts (Settlement Type) or Clearing Brokerage Contracts (Settlement Type) listed in each item of Paragraph 1 shall be regarded as zero; provided, however, that in the case prescribed by JSCC¹⁵⁸, the Net Present Value shall be regarded as zero at the time prescribed by JSCC on the day when an Application for exchanging Mark-to-Market Difference And Adjustment Amount is submitted for the Cleared Contracts (Settlement Type) or Clearing Brokerage Contracts (Settlement Type), pursuant to Article 51-2, Paragraph 1.

Article 62. Precedence of the Rules over Civil Code or Commercial Code

Notwithstanding the provisions of the Civil Code (Act No.89 of 1896) and the Commercial Code (Act No.48 of 1899), JSCC, a Clearing Participant and a Customer may claim a return of Margin or assert any other claim, only as prescribed in the Rules or the Clearing Brokerage Agreement.

¹⁵⁸ cf. Handling Procedures of IRS Clearing Business, Article 35-6.

Section 2 Initial Margin and Intraday Margin (Articles 63 – 76)

Article 63. Obligation to Deposit Initial Margin

A Clearing Participant and a Customer shall be required to deposit Initial Margin with JSCC pursuant to the provisions of each item below according to the classification of the Cleared Contracts listed in each such item. For the purpose of this Article and Articles 64 to 66, the reference to Initial Margin shall exclude Intraday Margin:

(1) Proprietary Cleared Contract

A Clearing Participant shall deposit with JSCC Cash or Eligible Securities Collateral in an amount not less than the Required Initial Margin in relation to a Proprietary Cleared Contract as Initial Margin.

(2) Customer's Cleared Contract

- a. A Customer shall deposit with JSCC Cash or Eligible Securities Collateral in an amount not less than the Required Initial Margin in relation to the Customer's Cleared Contracts for such Customer as Initial Margin. If the Clearing Broker and the Customer separately agree otherwise, the amount to be deposited shall be the amount calculated based on such agreement or the Required Initial Margin, whichever is larger (the same rule shall apply hereinafter).
- b. Deposit of Initial Margin by a Customer with JSCC pursuant to a. above shall be made through a Clearing Broker prescribed in a. above acting as its agent in accordance with the provisions of Article 72.
- c. When a Customer deposits the Customer Initial Margin with a Clearing Broker in accordance with Article 73, the amount of such Customer Initial Margin shall be deducted from the Required Initial Margin to be deposited with JSCC by such Customer. In such case, the Clearing Broker shall deposit with JSCC, as Substituted Initial Margin, Cash or Eligible Securities Collateral in an amount not less than the Customer Initial Margin deposited by the Customer with such Clearing Broker.
- d. When a Customer Buffer is allocated to a Customer Account pursuant to

the provisions of Articles 84-7.1 and 84-7.2, the amount so allocated shall be deducted from the Required Initial Margin to be deposited by the Customer with JSCC.

Article 64. Required Initial Margin for Clearing Participant

1 JSCC shall calculate the Required Initial Margin for a Clearing Participant in relation to Proprietary Cleared Contracts and Customer's Cleared Contracts respectively on each JSCC Business Day in the manner separately prescribed by JSCC¹⁵⁹.

2 The Required Initial Margin in respect of Proprietary Cleared Contracts shall be the amount calculated for the Proprietary Account.

3 The Required Initial Margin in respect of Customer's Cleared Contracts for each Customer Account shall be the amount calculated for the relevant Customer Account.

4 JSCC shall notify each Clearing Participant of the calculated Required Initial Margin in the manner separately prescribed by JSCC¹⁶⁰.

Article 65. Required Initial Margin for Customer

1 The Required Initial Margin for a Customer shall be the amount calculated by JSCC in the manner separately prescribed by JSCC¹⁶¹ for the Customer Account.

2 A Clearing Broker shall promptly notify the Customer of the Required Initial Margin for such Customer calculated by JSCC pursuant to Paragraph 1.

Article 65-2. Increase of Required Initial Margin for Customer under Agreement between Clearing Broker and Customer

Upon receipt of a notification in a manner prescribed by JSCC¹⁶² from a Clearing Broker of an increase in the Required Initial Margin for its Customer not in the same corporate group as such Clearing Broker in accordance with an agreement between such Clearing Broker and such Customer, JSCC shall increase the Required Initial Margin related to

¹⁵⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 36.1, as well as Appendix 2.

¹⁶⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 36.2.

¹⁶¹ *cf.* Handling Procedures of IRS Clearing Business, Article 36.1, as well as Appendix 2.

¹⁶² *cf.* Handling Procedures of IRS Clearing Business, Article 36-2.1

such Customer's Cleared Contracts in a manner prescribed by JSCC¹⁶³.

Article 66. Cutoff Time for Deposit of Initial Margin

1 When the sum of the amount of Cash and the appraisal value of Eligible Securities Collateral deposited as Initial Margin ("Initial Margin Deposited Amount") with JSCC falls short of the Required Initial Margin to be deposited with JSCC with respect to the Proprietary Account or each Customer Account, the Clearing Participant or the Customer, as the case may be, shall deposit with JSCC the amount equal to such shortfall by 11:00 a.m. on the JSCC Business Day immediately following the date of occurrence of such shortfall.

2 If it has been agreed in advance between the Clearing Participant and the Customer that it is practically difficult for the Customer to put in place the business execution procedures for depositing the amount equal to the shortfall by the time prescribed in Paragraph 1, such Customer shall deposit with JSCC the amount equal to such shortfall by 11:00 a.m. on the second JSCC Business Day following the date of occurrence of such shortfall.

3. Notwithstanding the provisions of Paragraphs 1 and 2 above, if the Initial Margin Deposited Amount is equal to or more than the amount of the Margin Required to Clear calculated by JSCC upon receipt of the application for Clearing, the Required Initial Margin shall be deemed to be equal to the amount of the Margin Required to Clear.

Article 67. Obligation to Deposit Intraday Margin

A Clearing Participant and a Customer shall be required to deposit Intraday Margin with JSCC pursuant to the provisions of each item below according to the classification of the Cleared Contracts listed in each such item:

(1) Proprietary Cleared Contract

A Clearing Participant shall deposit with JSCC Cash or Eligible Securities Collateral in an amount not less than the Required Intraday Margin in relation to a Proprietary Cleared Contract as Initial Margin.

(2) Customer's Cleared Contract

a. A Customer shall deposit with JSCC Cash or Eligible Securities Collateral

¹⁶³ cf. Handling Procedures of IRS Clearing Business, Article 36-2.3

in an amount not less than the Required Intraday Margin in relation to a Customer's Cleared Contract for such Customer as Initial Margin. If the Clearing Broker and the Customer separately agree otherwise, the amount to be deposited shall be the amount calculated based on such agreement or the Required Intraday Margin, whichever is larger (the same rule shall apply hereinafter).

- b. Deposit of Intraday Margin by a Customer with JSCC pursuant to a. above shall be made through a Clearing Broker prescribed in a. above acting as its agent in accordance with the provisions of Article 72.
- c. When a Customer deposits the Customer Initial Margin with a Clearing Broker in accordance with Article 73, the amount of such Customer Initial Margin shall be deducted from the Required Intraday Margin to be deposited with JSCC by such Customer. In such case, the Clearing Broker shall deposit with JSCC, as Substituted Initial Margin, Cash or Eligible Securities Collateral in an amount not less than the Customer Initial Margin deposited by the Customer with the Clearing Broker.
- d. When a Customer Buffer is allocated to a Customer Account pursuant to the provisions of Articles 84-7.1 and 84-7.2, the amount so allocated shall be deducted from the Required Intraday Margin to be deposited by the Customer with JSCC.

Article 68. Required Intraday Margin for Clearing Participant

1 JSCC shall calculate the Required Intraday Margin for a Clearing Participant in respect of Proprietary Cleared Contracts and Customer's Cleared Contracts respectively on each JSCC Business Day in the manner separately prescribed by JSCC¹⁶⁴.

2 The Required Intraday Margin in respect of Proprietary Cleared Contracts shall be the amount calculated for the Proprietary Account.

3 The Required Intraday Margin in respect of Customer's Cleared Contracts for each Customer Account shall be the amount calculated for the relevant Customer Account.

¹⁶⁴ cf. Handling Procedures of IRS Clearing Business, Article 36.1, as well as Appendix 2.

4 JSCC shall notify each Clearing Participant of the calculated Required Intraday Margin in the manner separately prescribed by JSCC¹⁶⁵.

Article 69. Required Intraday Margin for Customer

1 The Required Intraday Margin for a Customer shall be the amount calculated by JSCC in the manner separately prescribed by JSCC¹⁶⁶ for the Customer Account.

2 A Clearing Broker shall promptly notify the Customer of the Required Intraday Margin for such Customer calculated by JSCC pursuant to Paragraph 1.

Article 70. Cutoff Time for Deposit of Intraday Margin

1 When the Initial Margin Deposited Amount falls short of the Required Intraday Margin Amount to be deposited with JSCC, the Clearing Participant or the Customer, as the case may be, shall deposit with JSCC the amount equal to such shortfall by 3:30 p.m. of the date of occurrence of such shortfall.

2 If it has been agreed in advance between the Clearing Participant and the Customer that it is practically difficult for the Customer to put in place the business execution procedures for depositing the amount equal to such shortfall by the time prescribed in Paragraph 1, such Customer shall deposit with JSCC the amount equal to such shortfall by 3:30 p.m. of the second JSCC Business Day following the date of occurrence of such shortfall.

3 If the Initial Margin Deposited Amount is equal to or more than the amount of the Margin Required to Clear calculated by JSCC upon receipt of the application for Clearing or Voluntary Termination, the Required Intraday Margin Amount shall be deemed to be equal to the amount of the Margin Required to Clear .

Article 71. Method of Deposit of Initial Margin

Initial Margins shall be deposited with JSCC in the manner separately prescribed by JSCC¹⁶⁷.

¹⁶⁵ cf. Handling Procedures of IRS Clearing Business, Article 36.2.

¹⁶⁶ cf. Handling Procedures of IRS Clearing Business, Article 36.1, as well as Appendix 2.

¹⁶⁷ cf. Handling Procedures of IRS Clearing Business, Article 18.

Article 72. Deposit of Initial Margin by Customer

1 A Customer shall deliver Cash or Eligible Securities Collateral in an amount not less than the Required Initial Margin or the Required Intraday Margin, as the case may be, to be deposited with JSCC to a Clearing Broker as Initial Margin in accordance with the Clearing Brokerage Agreement.

2 The Clearing Broker shall deposit with JSCC all of Cash or Eligible Securities Collateral delivered as Initial Margin by the Customer pursuant to the provisions of Paragraph 1 as an agent of such Customer.

3 A Clearing Broker shall conduct separate management of the Cash and Eligible Securities Collateral delivered by Customers as Initial Margin by preparing separate books and records for each Clearing Brokerage Account.

4 When the sum of the amount of Cash and the appraisal value of the Eligible Securities Collateral delivered to a Clearing Broker by a Customer as Initial Margin is less than the Required Initial Margin or the Required Intraday Margin, as the case may be, to be deposited with JSCC by such Customer, such Clearing Broker shall deposit with JSCC the Cash or Eligible Securities Collateral in an amount not less than the amount equal to such shortfall from its own fund by the date and time prescribed in Article 66.1 or Article 70.1.

5 The Cash or Eligible Securities Collateral deposited with JSCC by the Clearing Broker from its own fund pursuant to Paragraph 4 shall be regarded as Substituted Initial Margin.

Article 73. Substituted Deposit

1 A Clearing Broker may accept deposit of Cash or Eligible Securities Collateral by a Customer as Customer Initial Margin for Customer's Cleared Contracts with the consent of such Customer.

2 When a Customer deposits with a Clearing Broker Cash or Eligible Securities Collateral as Customer Initial Margin, such Clearing Broker shall deposit with JSCC, as Substituted Initial Margin, Cash or Eligible Securities Collateral, from its own funds, in an amount not less than the amount of Cash or the appraisal value of Eligible Securities Collateral deposited by the Customer with the Clearing Broker.

3 In the case of Paragraph 2, the Clearing Broker shall separately manage the Cash and Eligible Securities Collateral deposited by Customers as Customer Initial Margins by preparing separate books and records for each Clearing Brokerage Account.

Article 74. Ad Hoc Deposit of Initial Margin

Notwithstanding the provisions of Article 64 through Article 66 and Article 68 through Article 70, in the event of sudden change in market condition or otherwise JSCC deems it necessary to secure appropriate operation of the IRS Clearing Business, JSCC may require Clearing Participants to make an ad hoc deposit of Initial Margin in such amount and such manner as prescribed by JSCC on a case-by-case basis.

Article 75. Classification and Management Method of Initial Margin

1 When depositing Cash or Eligible Securities Collateral as Initial Margin with JSCC, the Clearing Participant shall deposit such Cash or Eligible Securities Collateral separately according to the below listed classifications:

- (1) Initial Margin for Proprietary Cleared Contract;
- (2) Initial Margin for Customer's Cleared Contract of each Customer to be deposited by a Clearing Participant acting as an agent of a Customer;
- (3) Initial Margin for Customer's Cleared Contract of each Customer to be deposited by a Clearing Participant as Substituted Initial Margin; and
- (4) Initial Margin to be deposited as Customer Buffer.

2 JSCC shall manage Cash or Eligible Securities Collateral deposited by a Clearing Participant as Initial Margin separately according to the classifications prescribed in Paragraph 1.

3 With respect to the Substituted Initial Margin described in Paragraph 1.(3), a Clearing Participant shall report to JSCC, on each JSCC Business Day, the amount of Customer Initial Margin in the form of cash, and the total amount of the appraisal values of Eligible Securities Collateral deposited as Customer Initial Margin by the Customer with the Clearing Participant. JSCC shall separately monitor the difference between the

amount of cash and the appraisal value of Eligible Securities Collateral deposited as Customer Initial Margin and the amount of the Substituted Initial Margin.

Article 76. Right to Claim Return of Initial Margin

1 A Clearing Participant and a Customer shall respectively have the right to claim the return of specified categories of Initial Margin from JSCC as described in the items below:

(1) Initial Margin for Customer's Cleared Contracts

- a. For Initial Margin deposited with JSCC by a Customer and Substituted Initial Margin deposited with JSCC by a Clearing Participant as broker for the Customer, the Customer shall have the right to request the return of Initial Margin in an amount equivalent to the sum of (i) Initial Margin and (ii) Customer Initial Margin less (iii) the outstanding obligation of the Customer owed to its Clearing Broker in respect of that Customer's Clearing Brokerage Contracts (including any outstanding obligation arising as a result of the termination of that Customer's Clearing Brokerage Contracts) and (iv) the outstanding obligation of the Customer owed to its Clearing Broker in respect of the Cross Margined JGB Futures Cleared Contracts and the Cross Margined Interest Rate Futures Cleared Contracts recorded on the Customer Account established for such Customer (including any outstanding obligation arising as a result of the termination of the Cross Margined JGB Futures Cleared Contracts and the Cross Margined Interest Rate Futures Cleared Contracts). The amount of Customer Initial Margin above shall be limited to the amount of Substituted Initial Margin deposited with JSCC by the Clearing Broker

Notwithstanding the foregoing, in case the amount calculated above as Customer's claim exceeds the sum of Initial Margin and Substituted Initial Margin less the outstanding obligation of the Clearing Broker owed to JSCC in respect of the Customer's Cleared Contracts (including any outstanding obligation arising in association with liquidation of the Customer's Cleared Contracts as a result of the Default of the Clearing Broker, but excluding obligation owed pursuant to the provision of Article 99-2.2) and the outstanding obligation of the Clearing Broker owed to

JSCC in respect of the Cross Margined JGB Futures Cleared Contracts and the Cross Margined Interest Rate Futures Cleared Contracts recorded on the Customer Account established for such Customer, the Customer's claim shall not cover such excess amount.; and

- b. For Initial Margin and Substituted Initial Margin deposited with JSCC as broker for a Customer, their Clearing Broker may request the return of an amount equivalent to the sum of Initial Margin and Substituted Initial Margin less the total of b-1, b-2 and b-3 below;

b-1 : outstanding obligation of such Clearing Broker owed to JSCC in respect of the Customer's Cleared Contracts

b-2: outstanding obligation of the Clearing Broker owed to JSCC in respect of the Cross Margined JGB Futures Cleared Contracts and the Cross Margined Interest Rate Futures Cleared Contracts recorded on the Customer Account established for the Customer

b-3 : the amount of Initial Margin which said Customer shall have the right to reclaim under a. above.

(2) Initial Margin for Proprietary Cleared Contracts

A Clearing Participant shall have the right to request the return of Initial Margin in the amount equivalent to the amount of Initial Margin deposited with JSCC less the amount of outstanding obligation of the Clearing Participant owed to JSCC in respect of the Clearing Participant's Cleared Contracts (including any outstanding obligation arising from the settlement of Cleared Contracts due to Default of said Clearing Participant and other monies owed to JSCC) and the outstanding obligation of the Clearing Participant owed to JSCC in respect of the Cross Margined JGB Futures Cleared Contracts and the Cross Margined Interest Rate Futures Cleared Contracts recorded on its Proprietary Account.

(3) Customer Buffer

A Clearing Participant shall have the right to request the return of Initial Margin

with respect to the Customer Buffer Unallocated Balance; provided, however, that, when an allocated Customer Buffer is released from allocation pursuant to the provisions of Article 84-7.4, a Clearing Participant shall not have the right to request the return with respect to such allocated amount of Customer Buffer until the relevant Customer deposits or delivers sufficient amount to cover shortfall in the Required Initial Margin.

2 If the amount of the right to claim return of Initial Margin prescribed in Paragraph 1 exceeds the Required Initial Margin or the Required Intraday Margin, a Clearing Participant or a Customer may request JSCC to return Initial Margin up to the excess amount.

3 In addition to the case prescribed in Paragraph 2, a Customer may claim the return of Initial Margin as set forth in the Rules¹⁶⁸.

4 A Customer shall exercise its right to request the return of Initial Margin through its Clearing Broker; provided however, in the event that JSCC has declared the Default of the Clearing Broker, the Customer shall request the return of Initial Margin directly from JSCC.

5 Notwithstanding the provisions of Paragraphs 2 and 3, where a Customer may request the return of Customer Initial Margin from its Clearing Broker, said Customer shall not request the return of Initial Margin which corresponds to the said Customer Initial Margin from JSCC, except where JSCC has declared the Default of such Clearing Broker.

Section 3 Variation Margin, etc. (Articles 77 – 84)

Article 77. Payment and Receipt of Variation Margin etc.

1 JSCC and a Clearing Participant shall pay or receive the Variation Margin in Cash denominated in the currency of the relevant Cleared Contract (Collateral Type) on each day specified below according to each type of Cleared Contract (Collateral Type):

- | | |
|---|---|
| (1) JPY Cleared Contracts: | JSCC Business Day; and |
| (2) Foreign Currency Cleared Contracts: | Day which is JSCC Business Day
and Foreign Currency Home |

¹⁶⁸ cf. Handling Procedures of IRS Clearing Business, Article 37

Business Day.

2 Provisions of Paragraph 1 shall apply *mutatis mutandis* when JSCC and each Clearing Participant pay or receive Mark-to-Market Difference. When applying Paragraph 1, the term “Variation Margin” described in Paragraph 1 shall be replaced with “Mark-to-Market Difference” and the term “Cleared Contract (Collateral Type)” shall be replaced with “Cleared Contract (Settlement Type).”

Article 77-2. Cross Margining MtM Difference

1 If claims and obligations come into existence pursuant to the provisions of Article 84-5.1, JSCC and a Clearing Participant shall settle the Cash equivalent to the difference related to Cross Margined JGB Futures Cleared Contracts and Cross Margined Interest Rate Futures Cleared Contracts respectively set forth in Articles 73-9 and 73-9-2 of the Securities and Similar Contracts Business Rules (“Cross Margining MtM Difference”) on the next JSCC Business Day following the occurrence of such difference.

2 A Clearing Participant who is a payer of the Cross Margining MtM Difference, it must pay such amount by 11:00 a.m. on the next JSCC Business Day following the date of occurrence of Cross Margining MtM Difference.

3 JSCC will pay Cross Margining MtM Difference to the Clearing Participant to receive such amount without delay after 1:30 p.m. on the next JSCC Business Day following the occurrence of such Cross Margining MtM Difference.

Article 78. Required Amount of Variation Margin

1 The required amount of Variation Margin shall be calculated by JSCC for the Proprietary Account and each Customer Account of each Clearing Participant based on the change in Net Present Value of Cleared Contracts (Collateral Type) from the previous JSCC Business Day to the current JSCC Business Day by the method separately prescribed by JSCC¹⁶⁹.

2 JSCC shall calculate the required amount of Variation Margin in respect of Customer’s Cleared Contracts of Cleared Contracts (Collateral Type) for each Customer

¹⁶⁹ cf. Handling Procedures of IRS Clearing Business, Article 38.

Account using the JSCC-prescribed method¹⁷⁰ and shall notify said amounts to the Customer's Clearing Broker.

Article 78-2. Required Amount of Mark-to-Market Difference

1 Provisions of Article 78 shall apply *mutatis mutandis* for the required amount of Mark-to-Market Difference. When applying Article 78, the term "the required amount of Variation Margin" shall be replaced with "the required amount of Mark-to-Market Difference," the term "Cleared Contracts (Collateral Type)" shall be replaced with "Cleared Contracts (Settlement Type)" and the term "based on the change in Net Present Value" shall be replaced with "based on the Net Present Value" respectively.

2 When Mark-to-Market Difference is calculated according to Paragraph 1 and notified to Clearing Participant by JSCC, the claims and obligations of Mark-to-Market Difference shall come into existence at that time.

Article 79. Determination of Clearing Yield Curve

JSCC shall build forward curves and discount curves (collectively referred to as "Clearing Yield Curve") for calculation of IRS NPVs using the data prescribed by JSCC¹⁷¹ in the manner prescribed by JSCC¹⁷².

Article 80. Deleted

Article 81. Cutoff Time for Deposit of Variation Margin

1 A Clearing Participant who is a payer of Variation Margin shall deposit with JSCC the amount of Cash equal to the required amount of Variation Margin by 11:00 a.m. on the JSCC Business Day immediately following the date of calculation of such Variation Margin, or, for Variation Margin related to Foreign Currency Cleared Contracts, 11:00 a.m. on the first JSCC Business Day and Foreign Currency Home Business Day following the date of calculation of such Variation Margin.

2 JSCC shall deposit with a Clearing Participant who is a receiver of Variation Margin the amount of Cash equal to the required amount of Variation Margin without delay after 1:30 p.m. on the next JSCC Business Day following the date of calculation of

¹⁷⁰ cf. Handling Procedures of IRS Clearing Business, Article 38.

¹⁷¹ cf. Handling Procedures of IRS Clearing Business, Article 40.1

¹⁷² cf. Handling Procedures of IRS Clearing Business, Article 40.2

such Variation Margin, or, for Variation Margin related to Foreign Currency Cleared Contracts, without delay after 1:00 p.m. on the first JSCC Business Day and Foreign Currency Home Business Day following the date of calculation of such Variation Margin.

Article 81-2. Cut-off Time for Payment of Mark-to-Market Difference

1 Provisions of Article 81 shall apply *mutatis mutandis* for exchanging Mark-to-Market Difference. In applying Article 81, the term “Variation Margin” shall be replaced with “Mark-to-Market Difference,” and the term “Clearing Contracts (Collateral Type)” shall be replaced with “Cleared Contract (Settlement Type).” And the part of “deposit with JSCC the amount of Cash equal to the required amount of Variation Margin” in Paragraph 1 shall be replaced with “pay to JSCC the amount of Cash equal to the Mark-to-Market Difference” and the part of “deposit with a Clearing Participant” and “the amount of Cash equal to the required amount of Variation Margin” in Paragraph 2 shall be replaced with “pay to a Clearing Participant” and “the amount of Cash equal to the Mark-to-Market Difference” respectively.

Article 82. Ad Hoc Deposit of Variation Margin

Notwithstanding the provisions of Article 78 and Article 81, where there is a sudden change in market conditions or event for which JSCC deems it necessary to protect the continued operation of IRS Clearing Business, JSCC may require that Clearing Participants make an ad-hoc deposit of Variation Margin in an amount and manner prescribed by JSCC for that event.

Article 82-2. Ad Hoc Payment of Mark-to-Market Difference

Provisions of Article 82 shall apply *mutatis mutandis* for ad-hoc payment of Mark-to-Market Difference. When applying Article 82, “Article 78 and Article 81” shall be replaced with “Article 78-2 and Article 81-2,” and “ad-hoc deposit of Variation Margin” shall be replaced with “ad-hoc payment of Mark-to-Market Difference” respectively.

Article 83. Interest on Variation Margin

1 JSCC and a Clearing Participant shall pay or receive interest on Variation Margin in Cash denominated in the currency of the relevant Cleared Contract (Collateral Type) on a daily basis, as specified below according to the type of Cleared Contract (Collateral Type), at the rate prescribed by JSCC¹⁷³ and in the manner prescribed by JSCC:

¹⁷³ cf. Handling Procedures of IRS Clearing Business, Article 42.1.

(1) JPY Cleared Contracts which are Cleared Contracts:

JSCC Business Day; and

(2) Foreign Currency Cleared Contracts which are Cleared Contracts:

Day which is JSCC Business Day and Foreign Currency Home Business Day.

2 A Clearing Participant who is a payer of interest on Variation Margin shall pay such interest to JSCC by 11:00 a.m. on the next JSCC Business Day following the day on which the interest is calculated, or, for interest on Variation Margin related to Foreign Currency Cleared Contracts, 11:00 a.m. on the first JSCC Business Day and Foreign Currency Home Business Day following the date of calculation of such interest on Variation Margin.

3 JSCC shall pay interest on Variation Margin to each Clearing Participant who is a receiver of such interest without delay after 1:30 p.m. on the next JSCC Business Day following the day on which the interest is calculated, or, for interest on Variation Margin related to Foreign Currency Cleared Contracts, without delay after 1:00 p.m. on the first JSCC Business Day and Foreign Currency Home Business Day following the date of calculation of such interest on Variation Margin.

Article 83-2. Adjustment Amount related to Mark-to-Market Difference

1 JSCC and each Clearing Participant shall pay or receive Adjustment Amount related to Mark-to-Market Difference in Cash denominated in the currency of the relevant Cleared Contracts (Settlement Type) on a daily basis, as specified below according to the type of Cleared Contract (Settlement Type) in the manner prescribed by JSCC¹⁷⁴:

(1) JPY Cleared Contracts which are Cleared Contract:

JSCC Business Day; and

(2) Foreign Currency Cleared Contracts which are Cleared Contracts:

Day which is JSCC Business Day and Foreign Currency Home Business Day.

2 Provisions of Article 83.2 and 3 shall apply *mutatis mutandis* for payment or receiving Adjustment Amount related to Mark-to-Market Difference. When applying Article 83.2 and 3, the term “interest on Variation Margin” shall be replaced with “Adjustment Amount related to Mark-to-Market Difference.”

¹⁷⁴ Handling Procedures of IRS Clearing Business, Article 42.3

Article 84. Right to Claim Return of Variation Margin

JSCC and a Clearing Participant may not claim the other party to return Variation Margin except for payment and return in accordance with the provisions of the Rules or for return as a result of the Early Termination of any Cleared Contract.

Section 4 Cross Margining (Articles 84-2 – 84-5)

Article 84-2. Notification of Using Cross Margining

1 When a Clearing Participant or a Customer intends to use Cross Margining, the Clearing Participant must give an advance notification to JSCC in the manner prescribed by JSCC¹⁷⁵.

2 When a Clearing Participant intends to make change to the matters notified to JSCC pursuant to the provisions of Paragraph 1, it must give an advance notification to JSCC in the manner prescribed by JSCC¹⁷⁶.

Article 84-3. Discontinuance of Using Cross Margining

When a Clearing Participant or its Affiliated Customer desires to discontinue use of Cross Margining, the Clearing Participant must give an advance notification to JSCC in the manner prescribed by JSCC¹⁷⁷.

Article 84-4. Acceptance of Cross Margining

1 Upon receipt of a Cross Margining Request and if such request satisfies conditions prescribed by JSCC¹⁷⁸, JSCC shall immediately notify the details of such request to the Clearing Participant which is the Cross Margining Accepting Party relevant to such request in the manner prescribed by JSCC¹⁷⁹.

2 Upon receipt of the notification under Paragraph 1, the Cross Margining Accepting Party shall notify its acceptance or rejection of such request to JSCC by 6:30 p.m. on JSCC Business Day on which it received the said notification in the manner

¹⁷⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 42-2.1

¹⁷⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 42-3.

¹⁷⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 42-4.

¹⁷⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 42-6.

¹⁷⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 42-5.

prescribed by JSCC¹⁸⁰.

3 If the notice of an acceptance arrives at JSCC pursuant to the provisions of Paragraph 2 and such acceptance satisfies the conditions prescribed by JSCC¹⁸¹, JSCC shall record the Positions in JGB Futures Contracts and Interest Rate Futures Contracts covered by such notice of acceptance to the Proprietary Account of the Clearing Participant if the Cross Margining User made such request is a Clearing Participant, and to the Customer Account established for the relevant Customer if the Cross Margining User made such request is a Customer.

4 JSCC shall delete Positions recorded pursuant to the provisions of Paragraph 3 from the Proprietary Account or Customer Account, as applicable, at the timing prescribed by JSCC¹⁸².

Article 84-5. Identical Claims and Obligations as Those in Cross Margined JGB Futures Cleared Contracts and Cross Margined Interest Rate Futures Cleared Contracts

1 When the claims and obligations in the Cross Margined JGB Futures Cleared Contracts and the Cross Margined Interest Rate Futures Cleared Contracts between a Cross Margining Requestor and JSCC cease to exist pursuant to the provisions of Article 73-15-4.1 of the Securities and Similar Contracts Business Rules, the claims and obligations with the same terms and conditions as the said claims and obligations shall come into existence between the Clearing Participant on whose Clearing Participant Account the Positions in the said Cross Margined JGB Futures Cleared Contracts and Cross Margined Interest Rate Futures Cleared Contracts are recorded and JSCC in the manner prescribed by JSCC.

2 If the Positions in the Cross Margined JGB Futures Cleared Contracts and the Cross Margined Interest Rate Futures Cleared Contracts described in Paragraph 1 are recorded on a Customer Account, the legal relationship with the same economic effect as a Clearing Brokerage Contract, which would come into effect if the claims and obligations under Paragraph 1 come into effect through a Clearing Brokerage under Clearing Brokerage Agreement between such Customer and its Clearing Broker, shall arise between the Customer and the Clearing Broker at the same time as such claims

¹⁸⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 42-5.

¹⁸¹ *cf.* Handling Procedures of IRS Clearing Business, Article 42-7.1

¹⁸² *cf.* Handling Procedures of IRS Clearing Business, Article 42-8.

and obligations come into existence.

3 When JSCC conducts offsetting sale or offsetting purchase set forth in Article 93-2.1, the claims and obligations which came into effect in accordance with the provisions of Paragraph 1 and the legal relationship which has arisen in accordance with the provisions of Paragraph 2 shall cease to exist and have no future effect as of the time of such offsetting sale or offsetting purchase.

Section 5. Customer Buffer Framework

Article 84-6. Notification of Customer Buffer Utilization

1 When allowing its Customer to utilize Customer Buffer, a Clearing Broker shall notify JSCC, in advance in a manner prescribed by JSCC¹⁸³, of the Customer Buffer Cap for each Customer Account that are allowed Customer Buffer utilization.

2 When changing the Customer Buffer Cap for its Customer that are allowed Customer Buffer utilization, a Clearing Broker shall notify such change to JSCC in advance in a manner prescribed by JSCC¹⁸⁴.

3 When intending to allocate the Customer Buffer to a shortfall in Intraday Margin for the Customers it allows utilization of the Customer Buffer, the Clearing Broker shall notify such effect to JSCC in advance in a manner prescribed by JSCC¹⁸⁵.

4 A Clearing Broker may withdraw its notification given pursuant to Paragraph 3 in a manner prescribed by JSCC¹⁸⁶.

Article 84-7. Utilization of Customer Buffer

1 When a Customer requested a Clearing Broker to act as its Clearing Broker pursuant to the provisions of Article 54 or Article 54-2 and an amount sufficient to cover the Margin Required to Clear has not been deposited with or delivered to JSCC and the amount obtained by subtracting the Available Buffer Upon New Clearing from the

¹⁸³ *cf.* Handling Procedures of IRS Clearing Business, Article 42-10.1

¹⁸⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 42-10.1

¹⁸⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 42-10.1

¹⁸⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 42-10.1

Shortfall in Margin Required Clear is equal to or less than the cap set forth in Article 49.1.(2).b, the amount of Customer Buffer equal to the Shortfall in Margin Required to Clear, or if the Available Buffer Upon New Clearing is less than the Shortfall in Margin Required to Clear, the amount equal to the Available Buffer Upon New Clearing, shall be automatically allocated to such Customer's Customer Account in a manner prescribed by JSCC¹⁸⁷, and JSCC shall confirm satisfaction of the Clearing Requirements based on the deposited amount which includes the Customer Buffer so allocated, unless the Shortfall in Margin Required to Clear is more than the Available Customer Buffer.

2 When an amount sufficient to cover the Required Intraday Margin for a Customer has not been deposited with or delivered to JSCC, and such amount of shortfall (referred to as "Intraday Margin Shortfall" in this Article) is not more than the Available Customer Buffer Amount at Intraday Margin Calculation, the Customer Buffer in the amount equal to the Intraday Margin Shortfall shall be automatically allocated to such Customer's Customer Account in a manner prescribed by JSCC¹⁸⁸, and shortfall in Intraday Margin is resolved.

3 As to the Customer Buffer allocated to a Customer Account pursuant to the provisions of Paragraphs 1 and 2, when the sum of the Initial Margin Deposited Amount of the Customer and the Customer Buffer allocated to the relevant Customer Account as of the time designated by JSCC¹⁸⁹ is more than the Required Intraday Margin or the amount prescribed by JSCC as the amount equivalent to the Margin Required to Clear¹⁹⁰ not taking into account the allocated Customer Buffer, the allocated Customer Buffer in an amount equal to such excess, or, when the Required Intraday Margin or the amount prescribed by JSCC as the amount equivalent to the Margin Required to Clear for the relevant Customer is less than the Initial Margin Deposited Amount of the relevant Customer, the Customer Buffer in an amount equal to the entire amount of the Customer Buffer allocated to the relevant Customer Account, shall be released from allocation to such Customer Account.

4 The Customer Buffer allocated to a Customer Account pursuant to the provisions of Paragraphs 1 and 2 shall be released from allocation to such Customer

¹⁸⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 42-11.1

¹⁸⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 42-11.2

¹⁸⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 42-11.3

¹⁹⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 42-11.4

Account every JSCC Business Day at the timing prescribed by JSCC¹⁹¹.

5 When Customer Buffer allocated to a Customer Account is released pursuant to the provisions of Paragraph 2, notwithstanding the provisions of Paragraph 1, the Customer may not receive an allocation of Customer Buffer to its Customer Account until it deposits or delivers the amount sufficient to cover the shortfall in the Required Initial Margin.

Chapter 7 Settlement (Articles 85 – 85-5)

Article 85. Japanese Yen Fund Settlement

1 JSCC and Clearing Participants shall pay or receive Japanese yen Cash specified by JSCC¹⁹² in the manner prescribed by JSCC¹⁹³.

2 JSCC may pay or receive Japanese yen Cash on a net basis separately for each of the Clearing Participant's Proprietary Account, including an amount of Customer Buffer if the Clearing Participant has deposited Customer Buffer, and separately by each Customer Account, in the manner prescribed by JSCC¹⁹⁴.

Article 85-2. Netting of Initial Margin and Settlement Amount

1 After the netting pursuant to Article 85.2, for the Proprietary Account and Customer Account the net amount payable by a Clearing Participant to JSCC in terms of Settlement Amount, Variation Margin, and interest on Variation Margin for JPY Cleared Contracts (referred to as "Clearing Participant Net Payable" in this Article) shall be netted with Initial Margin (as set forth in Article 66) as specified in the formulae below. If the net amount is negative, then the Clearing Participant shall deposit the absolute value of such amount with JSCC. The net amount calculated in Item (1) shall be deposited in Cash:

- (1) Initial Margin Deposited Amount deposited in Cash minus Clearing Participant Net Payable

¹⁹¹ *cf.* Handling Procedures of IRS Clearing Business, Article 42-11.5

¹⁹² *cf.* Handling Procedures of IRS Clearing Business, Article 43.1.

¹⁹³ *cf.* Handling Procedures of IRS Clearing Business, Article 43.2.

¹⁹⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 43.4.

- (2) Initial Margin Deposited Amount minus Cash Allocated to Settlement minus Required Initial Margin

For the purpose of this Article, “Cash Allocated to Settlement” means Initial Margin Deposited Amount deposited in Cash which is applied to Clearing Participant Net Payable payable by Clearing Participant to JSCC pursuant to Article 85-2.1.(1) above.

2 After the netting pursuant to the provisions of Article 85.2, for each account, a net amount payable by JSCC (referred to as “JSCC Net Payable” in this Article) shall be netted with Initial Margin (as set forth in Article 66) as specified in the formula below. If the net amount is negative, then the Clearing Participant shall deposit the absolute value of such amount with JSCC.

Initial Margin Deposited Amount plus JSCC Net Payable minus Required Initial Margin

Article 85-3. Request for Withdrawal and Deemed Deposit of Initial Margin

1 A Clearing Participant due to receive the net amount, as a result of the netting set forth in Article 85.2, shall only receive such amount upon informing JSCC of the attribution of such payment across each of its Proprietary Account and Customer Accounts.

2 If no request for the withdrawal of Initial Margin (as specified in Paragraph 1, above) is received for a particular Proprietary Account or Customer Account, the net amount for that account shall be deemed to have been deposited in the relevant account as Initial Margin.

Article 85-4. Foreign Currency Fund Settlement Method

1 Notwithstanding Article 85, the settlement of non-Japanese yen Cash designated by JSCC to be settled between JSCC and a Clearing Participant shall be performed through a method prescribed by JSCC¹⁹⁵.

2 Upon settlement of non-Japanese yen Cash with a Clearing Participant pursuant to Paragraph 1, JSCC will calculate net settlement amount by each currency of the Foreign Currency Cleared Contracts separately for each of the Clearing Participant's Proprietary Account and each Customer Account, in the manner prescribed by JSCC.

¹⁹⁵ cf. Handling Procedures of IRS Clearing Business, Article 43-2.

JSCC may pay or receive non-Japanese yen Cash equivalent to the net amount so obtained.

3 Dates and times for payment and receipt of Settlement Amount for Foreign Currency Cleared Contracts between JSCC and Clearing Participants (excluding Mark-to-Market Difference And Adjustment Amount) shall be as specified below by each type of Foreign Currency Cleared Contract:

- (1) AUD Cleared Contract: 6:00 p.m. Sydney time on Payment Date
- (2) USD Cleared Contract: 5:00 p.m. New York time on Payment Date
- (3) EUR Cleared Contract: 4:45 p.m. London time on Payment Date

4 When a Clearing Participant has notified JSCC of its designation of the Proprietary Account or Customer Account as a unit of fund settlement (referred to as "Designated Account" in this paragraph and Paragraph 5), in advance, in a form prescribed by JSCC, it may, notwithstanding the second sentence of Paragraph 2, pay or receive Cash equivalent to the amount obtained for each Designated Account pursuant to the first sentence of Paragraph 2, and the net amount of the amount obtained pursuant to the first sentence of Paragraph 2 for its Proprietary Account and each Customer Account which are not the Designated Account, separately.

5 With respect to the notification set forth in Paragraph 4, a Clearing Participant may designate any combination of its Proprietary Account or multiple Customer Accounts as a single Designated Account. When such designation is made, in the application of the provisions of Paragraph 4, the combination of Proprietary Account or multiple Customer Accounts shall be deemed to be a single Designated Account.

6 When a Clearing Participant desires to change the matters notified in the notification set forth in Paragraphs 4 and 5, it shall give an advance notice of such change to JSCC.

Article 85-5. Treatment of Settlement Failure related to Foreign Currency Cleared Contracts

1 In the situation where a Clearing Participant has not completed deposit of Variation Margin or payment of interest on Variation Margin or Settlement Amount related to Foreign Currency Cleared Contracts by the deposit or payment cutoff time, if JSCC

deems appropriate considering the creditworthiness of the relevant Clearing Participant, the causes of the failure to complete such deposit or payment or other circumstances, JSCC will defer the deposit cutoff time for such amount remained undeposited to the same time on the first JSCC Business Day and Foreign Currency Home Business Day for the relevant Foreign Currency Cleared Contract following such deposit failure, or defer the payment cutoff time for such amount remained unpaid (together with such undeposited amount, "Unpaid Amount") to the same time on the first Foreign Currency Home Business Day for the relevant Foreign Currency Cleared Contract following such settlement failure.

2 In case of the deferral set forth in Paragraph 1, JSCC shall charge additional Required Initial Margin in the manner prescribed by JSCC¹⁹⁶ to the Clearing Participant which has failed such deposit or payment ("Clearing Participant Failing Settlement").

3 Clearing Participants shall make their utmost efforts to prevent occurrence of the deferral of deposit cutoff time or payment cutoff time for Variation Margin and interest on Variation Margin or Settlement Amount related to Foreign Currency Cleared Contracts set forth in Paragraph 1.

4 In addition to Paragraphs 1 through 3 above, matters necessary for treatment of deferral of deposit cutoff time or payment cutoff time for Unpaid Amount pursuant to Paragraph 1 shall be prescribed by JSCC.

Chapter 8 Clearing Deposit (Articles 86 - 88)

Article 86. Clearing Deposit

The IRS Clearing Fund, Initial Margin, the Third Tier Special Clearing Charge Collateral and the Default Contingent Margin deposited with JSCC by Clearing Participants constitute the "Clearing Deposit" as prescribed in Article 156-11 of the Financial Instruments and Exchange Act.

Article 87. Management of Clearing Deposit

1 JSCC shall hold the entire amount of the Clearing Deposit by segregating it in the manner prescribed by JSCC¹⁹⁷ on behalf of the Clearing Participants or Customers.

¹⁹⁶ *cf.* Handling Procedures of IRS Clearing Business, Article 43-3.1

¹⁹⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 44.

2 JSCC may manage the Clearing Deposit in the manner prescribed by JSCC¹⁹⁸ on behalf of the depositing Clearing Participants.

3 The profit or loss (including costs and fees) from JSCC's management of the Clearing Deposit shall vest in JSCC.

4 JSCC may, at its discretion, pay interest on the Clearing Deposit in the manner prescribed by JSCC¹⁹⁹ if the profit arises from the management of the Clearing Deposit.

5 If there arise any loss from the management of the Clearing Deposit as set forth in Paragraph 2, each Clearing Participant and Customer which has deposited IRS Clearing Fund, Initial Margin or Default Contingent Margin in cash shall pay JSCC its share of such loss determined in the manner prescribed by JSCC²⁰⁰.

6. IRS Clearing Fund, Initial Margin and Default Contingent Margin that have been deposited by the Clearing Participants and Customers shall be applied to the payment due from the Clearing Participants and Customers under Paragraph 5 above in the manner prescribed by JSCC²⁰¹.

Article 88. Prohibition of Use of Clearing Deposit for Other Purposes

JSCC is restricted in what it may do with the Clearing Deposit as follows: JSCC may not utilise, withdraw it, transfer it to a third party, create a pledge or any other security interests for the benefit of a third party on it, or otherwise dispose of it; provided that JSCC may manage it, including the payment of interest to a Clearing Participant as set forth in Article 87.4, and refund it to a Clearing Participant or a Customer in accordance with these Business Rules.

Chapter 9 Actions to be Taken in Case of Clearing Participant's Failure of Settlement

¹⁹⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 44-2.

¹⁹⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 44-3.1 &2.

²⁰⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 44-3.3

²⁰¹ *cf.* Handling Procedures of IRS Clearing Business, Article 44-3.4.

Section 1 Determination of Failure of Settlement and Default (Articles 89 – 90)

Article 89. Actions to be Taken in Case of Occurrence of Failure of Settlement and Default

1 Where JSCC determines a Clearing Participant's Settlement Failure, JSCC shall suspend Clearing of transactions to which such Clearing Participant ("Failed Participant") is a party and suspend the transfer of Funds, entirely or partially, to the Failed Participant to the extent and for such period deemed necessary by JSCC.

2 Notwithstanding the provisions of Paragraph 1, in the case where JSCC determines the Default of a Clearing Participant, JSCC may suspend an acceptance of Clearing of the Subject Transaction for Clearing to which such Defaulting Clearing Participant is a party and suspend the transfer of Funds, entirely or partially, to the Defaulting Clearing Participant.

3 JSCC may apply Funds, the delivery of which is suspended pursuant to Paragraphs 1 and 2, to the performance of the obligations of the Failed Participant or the Defaulting Clearing Participant to JSCC. Where such Funds consist of securities, JSCC shall liquidate them. The manner, time and price are at JSCC's discretion.

Article 90. Notification of Suspension of Clearing

When JSCC suspends acceptance of Clearing for any Clearing Participant under the provisions of Article 89.1 or 2, JSCC shall immediately notify all Clearing Participants and make a public announcement to that effect. If JSCC determines the Default of a Clearing Participant (Article 89.2), JSCC shall also notify the fact of determination of Default and the date of determination.

Section 2 Compulsory Termination of Cleared Contracts of Defaulting Clearing Participant (Articles 91 – 99)

Article 91. Compulsory Termination of Cleared Contracts

1 The Cleared Contracts belonging to a Clearing Participant found to be in Default shall be terminated without further notice on the Default Determination Date.

2 The Early Termination Charge payable due to closing out of the Defaulting Clearing Participant's Cleared Contracts shall be, by each currency type of the Defaulting

Clearing Participant's Cleared Contracts, the sum of the costs and losses incurred by JSCC in re-establishing its positions. The method of calculation is specified in the Subordinate Rules²⁰².

3 JSCC shall notify the Defaulting Clearing Participant of the Early Termination Charge, as described in Paragraph 2.

4 Upon receipt of notice of the Early Termination Charge, the Defaulting Clearing Participant shall immediately pay such fee to JSCC.

5 Notwithstanding the provisions of Paragraph 1, if Cross Margined JGB Futures Cleared Contracts or Cross Margined Interest Rate Futures Cleared Contracts are booked on the Clearing Participant Account of the Defaulting Clearing Participant, the Defaulting Clearing Participant's Cleared Contracts shall terminate, without further notice from JSCC or the Defaulting Clearing Participant, by, and as of the time of, the claims and obligations coming into effect between the Defaulting Clearing Participant and JSCC pursuant to the provisions of Article 84-5.1.

Article 92. IRS Default Management Committee

1 JSCC shall establish the IRS Default Management Committee in order to advice on hedging and the Default Auctions and other matters specified in the Subordinate Rules²⁰³ (referred to as "Matters for Consultation" in Paragraph 2 below) which would become necessary upon Clearing Participant's Default or when the claims and obligations come into effect pursuant to the provisions of Article 84-5.1.

2 JSCC shall consult the IRS Default Management Committee on Matters for Consultation, and shall take account of the advice of the Default Management Committee thereon.

3 JSCC shall nominate the Clearing Participants who shall be the members of the IRS Default Management Committee in the manner prescribed in the Subordinate Rules²⁰⁴. JSCC shall require that the committee members be bound to maintain

²⁰² *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 6.

²⁰³ *cf.* IRS Default Management Committee Rules, Article 4.

²⁰⁴ *cf.* IRS Default Management Committee Rules, Articles 5 and 6.

confidentiality.

4 The powers, authority, composition, term of office of each committee member, the operation of the committee and other related matters shall be specified in the Subordinate Rules²⁰⁵.

Article 93. Hedging Measures

1 At JSCC's discretion, taking account the advice of the IRS Default Management Committee, the composition and size of the Defaulting Clearing Participant's Cleared Contracts and the Cross Margining Liquidation Transactions as set forth in Paragraph 93-2, market conditions and other factors, JSCC may execute IRS Transactions for the purpose of hedging the risk of all or part of losses that may be suffered by JSCC as a result of a termination of the Defaulting Clearing Participant's Cleared Contracts or the Cross Margining Liquidation Transactions, including losses which JSCC may incur from the claims and obligations came into effect pursuant to the provisions of Article 84-5.1 of these Business Rules, if any, until JSCC is able to re-establish its positions, subject to the provisions of this Article ("Hedge Transactions").²⁰⁶

2 For the purpose of the Rules, Hedge Transactions shall be Cleared Contracts (Collateral Type). The details concerning the Hedge Transactions shall be prescribed by JSCC on each occasion.

Article 93-2. Execution of Cross Margining Liquidation Transactions

1 If the claims and obligations have come into existence pursuant to the provisions of Article 84-5.1, JSCC may, taking account the advice of the IRS Default Management Committee, cause the JGB Futures Clearing Participant of its selection conduct offsetting sale or offsetting purchase set forth in Article 73-15-4.2 of the Securities and Similar Contracts Business Rules or take other necessary liquidation process in respect of the Cross Margined JGB Futures Cleared Contracts or the Cross Margined Interest Rate Futures Cleared Contracts set forth in Article 84-5.1.

2 For the purpose of hedging all or part of losses which may JSCC incur as a result of the settlement of the Cross Margined JGB Futures Cleared Contracts or the

²⁰⁵ IRS Default Management Committee Rules.

²⁰⁶ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 7.

Cross Margined Interest Rate Futures Cleared Contracts, taking account the advice of the IRS Default Management Committee, the size of and market conditions and other factors surrounding the Cross Margined JGB Futures Cleared Contracts or the Cross Margined Interest Rate Futures Cleared Contracts mentioned in Paragraph 1, JSCC may execute IRS Transactions (hereinafter referred to as the “Cross Margining Liquidation Transactions”) simultaneously with the settlement of the Cross Margined JGB Futures Cleared Contracts or the Cross Margined Interest Rate Futures Cleared Contracts pursuant to the provisions of Paragraph 1 in the manner prescribed by JSCC in the Subordinate Rules²⁰⁷.

3 The Cross Margining Liquidation Transaction shall be deemed as a Cleared Contract (Collateral Type) to which the provisions of the Rules shall apply. In such event, details shall be prescribed by JSCC on each occasion.

4 If the claims and obligations come into effect pursuant to the provisions of Article 84-5.1 for any reason other than Clearing Participant’s Default and JSCC executes the Cross Margining Liquidation Transactions, JSCC shall have corresponding IRS Transactions with identical terms and conditions as the Cross Margining Liquidation Transactions, except for the transaction side on the part of JSCC which shall be opposite, executed between JSCC and the Clearing Participant set forth in Article 84-5.1 simultaneously with the execution of the Cross Margining Liquidation Transactions.

5 Provisions of Paragraph 3 shall apply mutatis mutandis to IRS Transactions set forth in Paragraph 4.

6 If the Cross Margining Liquidation Transactions under Paragraph 4 are executed in respect of the Cross Margined JGB Futures Cleared Contracts or the Cross Margined Interest Rate Futures Cleared Contracts recorded on the Customer Account of a Clearing Participant and the Clearing Brokerage Contracts for the Customer owning such Customer Account has not been terminated, the IRS Transactions under Paragraph 4 shall be deemed as the Customer’s Cleared Contract concluded through the Clearing Brokerage for the Customer and the legal relationship between the Clearing Participant and the Customer in relation to such IRS Transactions shall be deemed as the Clearing Brokerage Contracts related to such Customer’s Cleared Contracts.

²⁰⁷ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 7-2.

7 Details of the IRS Transactions to come into effect pursuant to the provisions of Paragraph 4 shall be prescribed by JSCC in the Subordinate Rules²⁰⁸.

Article 94. Position Transfer of Customer's Cleared Contract upon Default of Clearing Broker

1 On the termination of Customer's Cleared Contract pursuant to the provisions of Article 91, the Customer's Cleared Contracts of each Customer specified in the Subordinate Rules²⁰⁹ (where the Customer is not in Default set forth in Article 91; the same applies in this Article 94, Article 95 and Article 99-2 below) may be transferred as Position Transfer as a whole, to one or more Successor Clearing Brokers, who shall assume the rights, claims and obligations listed below, through the submission by the Customer of an application to JSCC via the Successor Clearing Broker(s). This may only be done during the period specified in the Subordinate Rules²¹⁰:

- (1) The claims and obligations identical, in terms and conditions as prescribed in the Subordinate Rules²¹¹, to the claims and obligations under the Customer's Cleared Contracts between the Defaulting Clearing Broker and JSCC which are in effect immediately before the termination of such Customer's Cleared Contracts pursuant to the provisions of Article 91; and
- (2) The claims and obligations identical, in terms and conditions as prescribed in the Subordinate Rules²¹², to the claims and obligations under the Clearing Brokerage Contract between the Defaulting Clearing Broker and the Customer which are in effect immediately before the termination of the Customer's Cleared Contracts pursuant to the provisions of Article 91.

²⁰⁸ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 7-2.

²⁰⁹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8.3.

²¹⁰ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8.1.

²¹¹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8.4.

²¹² *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8.4.

2 All Successor Clearing Brokers must have concluded the Clearing Brokerage Agreement with the Customer for whom they will become a Successor Clearing Broker.

3 Where a Customer applies to JSCC a transfer to one or more Successor Clearing Brokers, the Customer shall obtain the consent of all of the Successor Clearing Brokers.

4 When all Successor Clearing Brokers consent to the Position Transfer in Paragraph 3, they shall submit the request form received from the Customer to JSCC within the period referenced in Paragraph 1.

The request form shall state, among other things, the effect that the Successor Clearing Broker was asked to accept Position Transfer and has accepted it; that the Customer is submitting request for Position Transfer to JSCC; and that the Successor Clearing Broker is submitting the request for Position Transfer to JSCC.

5 Upon receipt of a request for Position Transfer, in accordance with the provisions of Paragraph 4, JSCC shall calculate Initial Margin (as specified in Articles 64 and 65) as if there had been a successful Position Transfer on the date of request of such Position Transfer, as well as the Position Transfer Fee²¹³, accrued liabilities, excluding liabilities which are already due between JSCC and the Defaulting Clearing Participant at the time of determination of the Default and which relate to the Fixed Amount, Floating Amount and upfront fee to be settled on the Position Transfer Date in respect of the Cleared Contracts whose Notional Amount and settlement currency are denominated in a currency other than Japanese yen, Variation Margin and Mark-to-Market Difference as set forth in more detail in the Subordinate Rules²¹⁴. JSCC shall accept the request for such Position Transfer, if JSCC can confirm that such Successor Clearing Broker has deposited and paid Initial Margin, Position Transfer fee, accrued liabilities, Variation Margin and Mark-to-Market Difference to JSCC, no later than 11:00 a.m. on the JSCC Business Day immediately following such date.

²¹³ Position Transfer Fee is equal to the amount of net Variation Margin deposited by the Customer to the Defaulting Clearing Participant by the Default Determination Date. See Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8.4.(1) for detail.

²¹⁴ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8.4.

6 Where JSCC accepts the request for Position Transfer under Paragraph 5, the settlement for the transferred Customer's Cleared Contracts and the Position Transfer shall be undertaken according to the following provisions:

- (1) The claims and obligations prescribed in each item of Paragraph 1 shall arise *de novo* among JSCC, all of the Successor Clearing Brokers and the Customer, as applicable, on the Position Transfer Date;
- (2) The claims and obligations which arise pursuant to Item (1) shall be deemed to be the claims and obligations that would have arisen had the Customer Clearing Contracts of Cleared Contract (Collateral Type) been transferred to the Successor Clearing Broker at the moment that the Customer Clearing Contracts with the Defaulting Clearing Broker were terminated;
- (3) Where claims and obligations arise as a result of Item (1), JSCC, the Successor Clearing Broker and the Customer respectively shall pay or receive the Position Transfer Fee, any accrued liabilities other than those which has already become due between JSCC and the Defaulting Clearing Broker at the time of Default determination, Variation Margin and Mark-to-Market Difference, as prescribed in the Subordinate Rules²¹⁵;
- (4) Initial Margin to which the relevant Customer has the right to claim return under Article 76 shall be treated as Initial Margin that has been deposited with JSCC by such Customer through the Successor Clearing Broker;
- (5) The claims and obligations arising as a result of the Clearing Brokerage Contract between the Defaulting Clearing Broker and the Customer as well as the claims and obligations resulting from Variation Margin paid or received between them in relation to such Clearing Brokerage Contract, excluding the obligations of the Defaulting Clearing Participant in connection with the Cleared Contracts which have become already due on the Default Determination Date and the obligations of the Defaulting Clearing Participant in relation to the Unpaid Amount set forth in Article 85-5.1, and the claims and obligations relating to Customer Initial Margin in the amount equal to those deemed to have been

²¹⁵ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8.6.

deposited with JSCC by the Customer through the Successor Clearing Broker pursuant to Item (4), shall cease to exist and have no future effect; and

- (6) Notwithstanding the provisions of Article 91.2, the Early Termination Charge as a result of the Customer's Cleared Contracts shall be calculated according to the Net Present Value of each Cleared Contract on the date of termination thereof as prescribed in the Subordinate Rules²¹⁶.

7 For the purpose of the Rules, the claims and obligations which arise between JSCC and each Successor Clearing Broker pursuant to the provisions of Paragraph 6 shall be deemed as the Customer's Cleared Contracts which are Cleared Contracts (Collateral Type).

8 In addition to the provisions of Paragraphs 1 to 7, other matters necessary for Position Transfer shall be prescribed in the Subordinate Rules²¹⁷.

Article 94-2. Position Transfer of Customer's Cleared Contract upon Default of Cross Margining Accepting Party

1 Notwithstanding the provisions of Article 94, when the claims and obligations set forth in Article 84-5.1 come into existence as a result of a Default of a Cross Margining Accepting Party, the Customer's Cleared Contracts may be transferred as Position Transfer as a whole, to one or more Successor Clearing Brokers, who shall assume the rights, claims and obligations listed below, through the submission by the Customer of an application to JSCC via the Successor Clearing Broker(s). This may only be done during the period specified in the Subordinate Rules²¹⁸:

- (1) The claims and obligations identical, in terms and conditions as prescribed in the Subordinate Rules²¹⁹, to the claims and obligations under the Customer's Cleared Contracts between the Cross Margining Accepting Party and JSCC

²¹⁶ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8.7.

²¹⁷ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8.

²¹⁸ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8-2.1.

²¹⁹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8-3.2.

which are in effect immediately before the claims and obligations coming into existence pursuant to the provisions of Article 84-5.1; and

- (2) The claims and obligations identical, in terms and conditions as prescribed in the Subordinate Rules²²⁰, to the claims and obligations under the Clearing Brokerage Contract between the Cross Margining Accepting Party and the Customer which are in effect immediately before the claims and obligations coming into existence pursuant to the provisions of Article 84-5.1.

2 The provisions of Article 94.2 to 94.8 shall apply mutatis mutandis for Position Transfer of claims and obligations related to the Customer's Cleared Contracts and Clearing Brokerage Contracts set forth in the provisions of Paragraph 1, except that Article 94.5 shall be replaced by the following provisions:

"5 Upon receipt of a request for Position Transfer, in accordance with the provisions of Paragraph 4, JSCC shall calculate Initial Margin (as specified in Articles 64 and 65) as if there had been a successful Position Transfer at 4:00 p.m. on the date of request of such Position Transfer, as well as the Position Transfer Fee, accrued liabilities, excluding liabilities which are already due between JSCC and the Defaulting Clearing Participant at the time of determination of the Default and which relate to the Fixed Amount, Floating Amount and upfront fee to be settled on the Position Transfer Date in respect of the Cleared Contracts whose Notional Amount and settlement currency are denominated in a currency other than Japanese yen, and Variation Margin as set forth in more detail in the Subordinate Rules. JSCC shall accept the request for such Position Transfer, if JSCC can confirm that such Successor Clearing Broker has deposited and paid Initial Margin, Position Transfer fee, accrued liabilities and Variation Margin to JSCC, no later than 4:00 p.m. on such date."

3 The Position Transfer of Customer's Cleared Contracts and Clearing Brokerage Contracts by a Cross Margining User set forth in Paragraphs 1 and 2 above may only be allowed when the Cross Margining User has agreed with the Listed Futures Successor Clearing Broker (and the JGB Futures Non-Clearing Participant, when the JGB Futures Contracts or the Interest Rate Futures Contracts of the said Cross Margining User are traded through brokerage of the JGB Futures Non-Clearing Participant) on the Listed

²²⁰ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8-3.2.

Futures Position Transfer, and submitted a request for Listed Futures Position Transfer in the form prescribed by JSCC to JSCC via the Listed Futures Successor Clearing Broker.

Article 94-3. Listed Futures Position Transfer of Claims and Obligations related to JGB Futures Cleared Contracts and the like and Claims and Obligations related to Interest Rate Futures Cleared Contracts and the like upon Default of Cross Margining Accepting Party

1 When the claims and obligations come into existence pursuant to the provisions of Article 84-5.1, a Listed Futures Position Transfer in relation to the claims and obligations listed below corresponding to such claims and obligations and the legal relationship set forth in Article 84-5.2 as a whole to a Listed Futures Successor Clearing Broker may be effected, through the submission by the Cross Margining User falling under Article 2.1.(13)-9.b. to d. an application to JSCC via the Listed Futures Successor Clearing Broker. This may only be done during the period specified in the Subordinate Rules²²¹, and so long as no event of default under the Agreement for Setting Up Futures/Options Trading Account prescribed by the Designated Market Operator or the Contract for Commissioning Clearance related to JGB Futures, etc. executed with the Cross Margining Requestor has occurred on the part of the Cross Margining User or the Cross Margining User has not been subject to the measures of suspension of a Clearing Brokerage for Market Transactions of Derivatives by the Designated Market Operator as it is judged to be insolvent or likely to be insolvent:

- (1) The claims and obligations identical, in terms and conditions as prescribed in the Subordinate Rules, to the claims and obligations set forth in Article 84-5.1 between the Cross Margining Accepting Party and JSCC which are in effect at the time when the claims and obligations come into existence pursuant to the provisions of Article 84-5.1; and
- (2) The claims and obligations identical, in terms and conditions as prescribed in the Subordinate Rules, to the legal relationship set forth in Article 84-5.2 between the Cross Margining Accepting Party and the Customer which are in effect at the time when the claims and obligations come into existence pursuant to the provisions of Article 84-5.1.

²²¹ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8-3.1.

2 Where a Cross Margining User applies to JSCC for a Listed Futures Position Transfer pursuant to the provisions of Paragraph 1, the Cross Margining User shall obtain the consent of the Listed Futures Successor Clearing Broker (and the JGB Futures Non-Clearing Participant, when the JGB Futures Contracts or the Interest Rate Futures Contracts of the Cross Margining User are traded through a brokerage of a JGB Futures Non-Clearing Participant).

3 When the Listed Futures Successor Clearing Broker consents to the Listed Futures Position Transfer in Paragraph 2, it shall submit the request form for Listed Futures Position Transfer received from the Cross Margining User to JSCC within the period referenced in Paragraph 1.

The request form shall state, among other things, the effect that the Listed Futures Successor Clearing Broker was asked to accept Listed Futures Position Transfer and has accepted it; that the JGB Futures Non-Clearing Participant has agreed to it, when the JGB Futures Contracts or the Interest Rate Futures Contracts of the Cross Margining User are traded through a brokerage of the JGB Futures Non-Clearing Participant; that the Cross Margining User is submitting request for Listed Futures Position Transfer to JSCC; and that the Listed Futures Successor Clearing Broker is submitting the request for Listed JGB Futures Position Transfer to JSCC.

4 Upon receipt of a request for Listed Futures Position Transfer pursuant to the provisions of Paragraph 3, JSCC shall accept the request for such Listed Futures Position Transfer, if the conditions set forth below according to each case listed below are satisfied:

- (1) When the claims and obligations set forth in Article 84-5.1 come into existence as a result of a Default of the Cross Margining Accepting Party:
Position Transfer of Customer's Cleared Contracts and Clearing Brokerage Contracts as set forth in Paragraph 94-2 is possible;
- (2) When the claims and obligations set forth in Article 84-5.1 come into existence due to any reason other than a Default of the Cross Margining Accepting Party:
Such Cross Margining Accepting Party has deposited the amount of Initial Margin calculated by JSCC pursuant to the provisions of Articles 64 and 65 as

if there had been a successful Listed Futures Position Transfer at 4:00 p.m. on the date of request of such Listed Futures Position Transfer with JSCC no later than 4:00 p.m. on such date.

5 Where JSCC accepts the request for Listed Futures Position Transfer under Paragraph 4, the settlement for the transferred Cross Margined JGB Futures Cleared Contracts and Cross Margined Interest Rate Futures Cleared Contracts and the Listed Futures Position Transfer shall be undertaken according to the following provisions:

(1) According to the cases listed below, the claims and obligations prescribed in each item of Paragraph 1 shall arise *de novo* among the parties specified in the relevant items below on the Listed Futures Position Transfer Date:

a. When the Cross Margining User falls under Article 2.1.(13)-8.b:

Among JSCC, Listed Futures Successor Clearing Broker and the customer whose JGB Futures Contracts or Interest Rate Futures Contracts are traded through a brokerage of the Listed Futures Successor Clearing Broker;

b. When the Cross Margining User falls under Article 2.1.(13)-8.c:

Among JSCC, Listed Futures Successor Clearing Broker and the JGB Futures Non-Clearing Participant whose JGB Futures Contracts or Interest Rate Futures Contracts are Cleared through brokerage of the Listed Futures Successor Clearing Broker;

c. When the Cross Margining User falls under Article 2.1.(13)-8.d:

Among JSCC, Listed Futures Successor Clearing Broker, the JGB Futures Non-Clearing Participant whose JGB Futures Contracts or Interest Rate Futures Contracts acting as broker for the customer are Cleared through brokerage of the Listed Futures Successor Clearing Broker and the customer whose JGB Futures Contracts or Interest Rate Futures Contracts are traded through brokerage of the JGB Futures Non-Clearing Participant.

(2) The claims and obligations which arise pursuant to Item (1) shall be deemed to be as follows:

a. Among the parties specified in Item (1).a. above, the claims and obligations

related to the JGB Futures Cleared Contracts or the Interest Rate Futures Cleared Contracts which would have come into effect at the time of the Listed Futures Position Transfer had brokerage for the JGB Futures Contracts or the Interest Rate Futures Contracts been asked by the customer to the Listed Futures Successor Clearing Broker, and the claims and obligations related to the brokerage for the relevant JGB Futures Contracts or the relevant Interest Rate Futures Contracts;

b. Among the parties specified in Item (1).b. above, the claims and obligations related to the JGB Futures Cleared Contract or the Interest Rate Futures Cleared Contracts which would have come into effect at the time of the Listed Futures Position Transfer had Clearing brokerage for the JGB Futures Contracts or the Interest Rate Futures Contracts been asked by the JGB Futures Non-Clearing Participant to the Listed Futures Successor Clearing Broker, and the claims and obligations related to the Clearing brokerage for the relevant JGB Futures Contracts or the relevant Interest Rate Futures Contracts;

c. Among the parties specified in Item (1).c. above, the claims and obligations related to the JGB Futures Cleared Contract or the Interest Rate Futures Cleared Contracts which would have come into effect at the time of the Listed Futures Position Transfer had brokerage for the JGB Futures Contracts or the Interest Rate Futures Contracts been asked by the customer to the JGB Futures Non-Clearing Participant and Clearing related to such JGB Futures Contracts or Interest Rate Futures Contracts been asked by the JGB Futures Non-Clearing Participant to the Listed Futures Successor Clearing Broker, the claims and obligations related to Clearing brokerage for the JGB Futures Contracts or the Interest Rate Futures Contracts, and the claims and obligations related to the brokerage for the customer's JGB Futures Contracts or Interest Rate Futures Contracts of the JGB Futures Non-Clearing Participant;

- (3) In the Listed Futures Position Transfer, the Settlement Price, as defined in the Securities and Similar Contracts Business Rules, on the JSCC Business Day immediately preceding the date on which the claims and obligations come into existence pursuant to the provisions of Article 84-5.1 shall be used as the Contract Price.

- (4) Where claims and obligations arise as a result of Item (1), JSCC and the Cross Margining Accepting Party respectively shall pay or receive the amount equivalent to the Cross Margining MtM Difference, as prescribed in the Subordinate Rules²²²;
- (5) The claims and obligations between JSCC and the Cross Margining Accepting Party set forth in Article 84-5.1 and the legal relationship between the Cross Margining Accepting Party and the Customer set forth in Article 84-5.2 shall cease to exist and have no future effect.

6 The claims and obligations which arise between JSCC and the Listed Futures Successor Clearing Broker pursuant to the provisions of Paragraph 5 shall be deemed as the JGB Futures Cleared Contracts or the Interest Rate Futures Cleared Contracts, as applicable, and the provisions of the Securities and Similar Contracts Business Rules and sub-ordinated rules thereof shall apply.

7 In addition to the provisions of Paragraphs 1 to 6, other matters necessary for Listed Futures Position Transfer shall be prescribed in the Subordinate Rules.

Article 95. Default Auction

1 Following the Default of a Clearing Participant, in order to re-establish the positions affected by the termination of the Defaulting Clearing Participant's Cleared Contracts (excluding Customer's Cleared Contracts succeeded to the Successor Clearing Broker pursuant to the provisions of Article 94 and Article 94-2), JSCC may hold an auction ("Default Auction") to execute IRS Transactions to eliminate losses that JSCC may suffer from the termination of such Defaulting Clearing Participant's Cleared Contracts, the Hedge Transactions and the Cross Margining Liquidation Transactions, including those losses that JSCC may suffer from the claims and obligations which have come into effect pursuant to the provisions of Article 84-5.1 of these Business Rules, if any.

The Customer's Cleared Contracts transferred to the Successor Clearing Broker pursuant to the provisions of Article 94 shall be excluded from the scope of such Default

²²² *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 8-3.2.

Auction.

2 JSCC may hold Default Auction set forth in Paragraph 1 separately by each currency type of the Defaulting Clearing Participant's Cleared Contracts.

3 Before holding a Default Auction, JSCC shall determine, and advise Clearing Participants of, the details of the IRS Transactions to be executed by the Default Auction ("Auction Transactions") and other terms and conditions, in the manner prescribed in the Subordinate Rules²²³.

4 All Clearing Participants other than Defaulting Clearing Participant are required to participate in Default Auction in the manner prescribed in the Subordinate Rules²²⁴.

5 In addition to the provisions of Paragraphs 1, 2 and 3, the procedures and other matters related to Default Auction shall be prescribed in the Subordinate Rules²²⁵.

Article 95-2. Treatment in the event of Possible Shortfall in Loss Recovery by Default Auction

1 Following a Default Auction, where it is threatened that the losses arising out of the Default of the Defaulting Clearing Participant as a result of the execution of the Auction Transactions, calculated by each currency type of the Defaulting Clearing Participant's Cleared Contracts pursuant to the provisions of Article 102.1, cannot be recovered in full under Articles 103 to 106, JSCC shall, taking account the advice of the IRS Default Management Committee, either hold another Default Auction in respect of the Defaulting Clearing Participant's Cleared Contracts denominated in the currency which would be likely to cause shortfall or conduct consultation pursuant to the provisions of Article 96.

2 Notwithstanding the provisions of Paragraph 1, if the Default Auctions to be held separately by each currency type of the Defaulting Clearing Participant's Cleared

²²³ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 10.

²²⁴ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 9.

²²⁵ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Articles 10, 11, 12 and 13.

Contracts are held at the same time or in respect of the Default Auction held at last among the Default Auctions to be held in association with the termination of the Defaulting Clearing Participant's Cleared Contracts, when the losses arising out of the Default of the Defaulting Clearing Participant as a result of the execution of the Auctioned Transactions may not be recovered in full under Articles 103 to 106, JSCC and Clearing Participants shall have mutual consultation pursuant to the provisions of Article 96.

3 The provisions of Paragraph 2 shall apply *mutatis mutandis* when another Default Auction shall be held pursuant to the provisions of Paragraph 1.

Article 96. Consultation in the event of Shortfall in Loss Recovery

1 The mutual consultation under the provisions of Article 95-2.1 and 95-2.2 shall be held among JSCC and all Clearing Participants required to participate in the Default Auction on how to settle losses arising out of the Default of the Defaulting Clearing Participant as a result of the execution of the Auctioned Transactions in the manner prescribed in the Subordinate Rules²²⁶.

2 When, as a result of the consultation, an agreement is reached among JSCC and all Clearing Participants required to participate in the Default Auction in question, pursuant to the provisions of the Subordinate Rules, JSCC shall settle such losses in accordance with such agreement, provided that the settlement shall enable it to recover such losses in full and to continue its IRS Clearing Business.

Article 97. Compulsory Termination of Cleared Contracts due to Failure of Mutual Consultation

1 When the consultation is held among JSCC and the Clearing Participants pursuant to Article 96.1 but they fail to reach the agreement referred to in Article 96.2 within the period prescribed in the Subordinate Rules²²⁷, any and all Cleared Contracts remaining in force whose Notional Amount and settlement currency are denominated in the same currency as that of the Defaulting Clearing Participant's Cleared Contracts for which the agreement cannot be reached shall terminate automatically as of the end of such period without any notice from JSCC or any Clearing Participant.

²²⁶ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 15.3.

²²⁷ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 16.

2 JSCC shall prescribe in the Subordinate Rules²²⁸ the amount of Early Termination Charge which becomes payable and other necessary matters relating to the termination of Cleared Contracts under Paragraph 1.

Article 98. Notification in relation to Mutual Consultation

When agreement is reached under Article 96.2, or Cleared Contracts specified in Article 97.1 are terminated under Article 97.1, JSCC shall immediately notify all Clearing Participants and make a public announcement to that effect.

Article 99. Execution of Auction Transaction

1 When a Clearing Participant makes a successful bid on Auction Transactions in a Default Auction, such Auction Transactions shall come into effect between JSCC and such Clearing Participant in the manner as prescribed in the Subordinate Rules²²⁹.

2 JSCC and the Clearing Participant referred to in Paragraph 1 shall, when Auction Transactions comes into effect pursuant to the provisions of Paragraph 1, pay or receive the cash, Variation Margin and Mark-to-Market Difference prescribed in the Subordinate Rules²³⁰ in the manner prescribed in the Subordinate Rules²³¹.

3 For the purpose of the Rules, Auction Transactions that come into effect pursuant to the provisions of Paragraph 1 shall be deemed as Cleared Contracts which are Cleared Contracts (Collateral Type).

4 In addition to the provisions of Paragraphs 2 and 3, procedures that would need to be followed when a Subject Transaction for Auction comes into effect shall be prescribed in the Subordinate Rules.

Article 99-2. Customer Profit Direct Receipt upon Default of Clearing Broker

²²⁸ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17.

²²⁹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 12.

²³⁰ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 14.1.

²³¹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 14.2.

1 Upon termination of Customer's Cleared Contracts executed on an account of a Customer pursuant to the provision of Article 91, if the Customer's Cleared Contracts are not transferred pursuant to the provision of Articles 94 through 94-3, the Customer has the right to request payment from JSCC of the amount of Cash specified in the Subordinate Rules²³² as the amount equivalent to the profit which the Customer is entitled to receive in respect of the Customer's Cleared Contracts on and after the Default Determination Date, and may exercise such right to request payment in the manner specified in the Subordinate Rules²³³.

2 The Defaulting Clearing Participant shall be liable to JSCC for indemnification of the amount of Cash set forth in Paragraph 1 above irrespective of before or after its payment by JSCC.

Section 3 Netting and Application of Collateral in respect of Obligation of Defaulting Clearing Participant (Articles 100 – 101)

Article 100. Obligation in relation to Default Settlement

A Defaulting Clearing Participant shall be required to pay an Early Termination Charge which becomes payable upon termination of the Defaulting Clearing Participant's Cleared Contracts. In addition, if JSCC incurs losses, expenses or obligations as a result of the Default Auction, the execution of the Auction Transactions under Articles 95 and 99 or otherwise for the settlement of the Defaulting Clearing Participant's Cleared Contracts and the claims and obligations which have come into effect pursuant to the provisions of Article 84-5.1, the Defaulting Clearing Participant shall indemnify JSCC for such losses, expenses or obligations.

Article 101. Method for Settlement of Defaulting Clearing Participant's Cleared Contracts

1 Notwithstanding anything to the contrary stated herein, in respect of the obligations which a Defaulting Clearing Participant owes to JSCC in connection with termination of the Defaulting Clearing Participant's Cleared Contracts set forth in Item (1) below ("Unsettled Obligations"), the net-settlement thereof and the application of

²³² cf. Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-2.1.

²³³ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-2.2.

collateral thereto shall be made by each currency type of the Defaulting Clearing Participant's Cleared Contracts pursuant to the provisions of Item (2) of this paragraph, on the day on which all the amounts of Unsettled Obligations, obligations of JSCC to be netted out against such Unsettled Obligations and the value of the collateral to be applied to the payment of such Unsettled Obligations are fixed:

- (1) Unsettled Obligations shall be:
 - a. Payment obligation for the Early Termination Charge payable by the Defaulting Clearing Participant to JSCC in respect of the currency of the relevant Defaulting Clearing Participant's Cleared Contracts as a result of termination of the Defaulting Clearing Participant's Cleared Contracts;
 - b. Obligation to return Variation Margin deposited by JSCC with the Defaulting Clearing Participant for the Defaulting Clearing Participant's Cleared Contracts and the payment obligation for the accrued interests on such Variation Margin. Variation Margin and interests on Variation Margin related to the Defaulting Clearing Participant's Cleared Contracts whose Notional Amount and settlement currency are denominated in a currency other than Japanese yen shall be converted into Japanese yen in the manner prescribed by JSCC in the Subordinate Rules²³⁴, the same applies in below Item (2);
 - c. Any unsettled obligation of the Defaulting Clearing Participant in relation to any Cleared Contract in the relevant currency that has already become due at the time when the occurrence of the Default of such Defaulting Clearing Participant is determined. The unsettled obligation in relation to the Defaulting Clearing Participant's Cleared Contracts whose Notional Amount and settlement currency are denominated in a currency other than Japanese yen shall be converted into Japanese yen in the manner prescribed by JSCC in the Subordinate Rules²³⁵, the same applies in below Item (2);

²³⁴ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-2.

²³⁵ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-2.

- d. Payment obligations in respect of the currency of the Defaulting Clearing Participant's Cleared Contracts owed by the Defaulting Clearing Participant pursuant to the provision of Article 99-2.2. The payment obligations in respect of the Defaulting Clearing Participant's Cleared Contracts whose Notional Amount and settlement currency are denominated in a currency other than Japanese yen shall be converted into Japanese yen in the manner prescribed by JSCC in the Subordinate Rules²³⁶; and
 - e. Payment obligations in respect of the currency of the Defaulting Clearing Participant's Cleared Contracts owed by the Defaulting Clearing Participant pursuant to the provision of Article 101. The payment obligations in respect of the Defaulting Clearing Participant's Cleared Contracts whose Notional Amount and settlement currency are denominated in Japanese yen shall include those related to claims and obligations came into effect pursuant to the provisions of Article 84-5.1. The payment obligations in respect of the Defaulting Clearing Participant's Cleared Contracts whose Notional Amount and settlement currency are denominated in a currency other than Japanese yen shall be converted into Japanese yen in the manner prescribed by JSCC in the Subordinate Rules²³⁷, the same applies in below Item (2).
- (2) Netting and application of collateral to be conducted by each currency of the Defaulting Clearing Participant's Cleared Contracts shall be conducted pursuant to the following provisions:
- a. The amount of the Early Termination Charge payable by JSCC for the relevant currency shall be deducted from the total amount of the Unsettled Obligations for the relevant currency set forth in Item (1) ("Defaulting Clearing Participant Payment Amount"). If any Cross Margined JGB Futures Cleared Contract or Cross Margined Interest Rate Futures

²³⁶ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-3.

²³⁷ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-2.

Cleared Contract is booked on the Clearing Participant Account of the Defaulting Clearing Participant, the amount of the Early Termination Charge payable by JSCC in respect of the Defaulting Clearing Participant's JPY Cleared Contracts shall include JSCC's payment obligations related to the claims and obligations which have come into effect pursuant to the provisions of Article 84-5.1;

- b. Variation Margin deposited with JSCC by the Defaulting Clearing Participant for the Defaulting Clearing Participant's Cleared Contracts shall be applied to the payment of the Unsettled Obligations in respect of the relevant currency, and the amount so applied shall be deducted from the total amount of Unsettled Obligations remaining after the deduction set forth in a. above;
- c. The Funds of which delivery to the Defaulting Clearing Participant has been suspended pursuant to the provisions of Article 89.2 shall be applied to the payment of the Unsettled Obligations in respect of the relevant currency, and the amount so applied shall be deducted from the total amount of Unsettled Obligations remaining after the deduction set forth in b. above, provided that, for securities, the proceeds from their liquidation remaining after payment of cost of liquidation shall be applied to the payment of the Unsettled Obligations, and for Cash in a currency other than Japanese yen, the Japanese yen equivalent converted in the manner prescribed by JSCC in the Subordinate Rules²³⁸ shall be applied to the payment of the Unsettled Obligations;
- d. Initial Margin deposited for the Defaulting Clearing Participant's Cleared Contracts and allocated by each currency type using the allocation ratio prescribed by JSCC in the Subordinate Rules²³⁹ other than Initial Margin of which the Customer has the right to claim return pursuant to the provisions of Article 76 shall be applied to the payment of the Unsettled Obligations in respect of the relevant currency, and the amount so applied

²³⁸ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-2.

²³⁹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-3.1.

shall be deducted from the total amount of Unsettled Obligations remaining after the deduction set forth in c. above, provided that, for Initial Margin in the form of securities, the proceeds from their liquidation remaining after payment of cost of liquidation shall be applied to the payment of the Unsettled Obligations;

- e. The IRS Clearing Fund and the Default Contingent Margin deposited by the Defaulting Clearing Participant and allocated by each currency type of the Defaulting Clearing Participant's Cleared Contracts using the allocation ratio prescribed by JSCC in the Subordinate Rules²⁴⁰ shall be applied to the payment of the Unsettled Obligations in respect to the relevant currency, and the amount so applied shall be deducted from the amount of Unsettled Obligations remaining after the deduction set forth in d. above, provided that for securities deposited as the IRS Clearing Fund or the Default Contingent Margin, the proceeds from their liquidation remaining after payment of cost of liquidation shall be applied to the payment of the Unsettled Obligations; and
- f. The excess collateral deposited by the Defaulting Clearing Participant to secure its obligations under any Other Clearing Business and allocated by each currency type of the Defaulting Clearing Participant's Cleared Contracts using the allocation ratio prescribed by JSCC in the Subordinate Rules²⁴¹ shall be applied to the payment of the Unsettled Obligations in respect to the relevant currency, and the amount so applied shall be deducted from the Unsettled Obligations remaining after the deduction set forth in e. above. As used herein, "excess collateral" means margin, clearing fund and any other collateral deposited by the Defaulting Clearing Participant with JSCC in respect of any of the Other Clearing Businesses, to which the Defaulting Clearing Participant has the right to claim return, remaining after application thereof to the payment of the Defaulting Clearing Participant's obligations in accordance with the business rules of such Other Clearing Business, provided that in the case of the excess

²⁴⁰ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-3.2.

²⁴¹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-3.2.

collateral in the form of securities, it shall be the amount of proceeds of their liquidation remaining after the cost of such liquidation.

2 When there still remains any Defaulting Clearing Participant Payment Amount in respect of a certain currency outstanding after the netting and application of collateral by each currency of the Defaulting Clearing Participant's Cleared Contracts as set forth in Paragraph 1, the total amount of such outstanding Defaulting Clearing Participant Payment Amounts shall constitute one single claim of JSCC against the Defaulting Clearing Participant arising from termination of all Defaulting Clearing Participant's Cleared Contracts notwithstanding any other provision of these Business Rules.

Section 4 Sharing of Losses by Other Clearing Participants (Articles 102 – 111)

Article 102. Calculation of Losses Resulting from Default Settlement

1 On the date prescribed in the Subordinate Rules²⁴² ("Initial Loss-Determination Date"), JSCC shall determine whether or not any loss suffered by JSCC will arise by subtracting the Re-Allocated Margin (as defined in Article 102-2) from the amount remaining after the netting and application of collateral pursuant to the provisions of Article 101.1.(2), and if there is any such loss, calculate the amount thereof.

2 If under Paragraph 1, there is any claim or obligation or collateral the amount of which is yet to be determined, JSCC shall carry out the calculation set forth in Paragraph 1 by reference to an estimated amount thereof determined by JSCC.

Article 102-2. (Allocation of Collaterals to Defaulting Clearing Participant's Cleared Contracts in Different Currencies)

If the Defaulting Clearing Participant's Cleared Contracts are composed of JPY Cleared Contracts and Foreign Currency Cleared Contracts or Foreign Currency Cleared Contracts in multiple currencies and the resultant value obtained from the loss calculation pursuant to the provisions of Article 102.1 for Defaulting Clearing Participant's Cleared Contracts of one currency is negative, the absolute value of such negative value prorated

²⁴² cf. Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 18.

in the manner prescribed by JSCC in the Subordinate Rules²⁴³ shall be distributed as Re-Allocation Margin to be netted against the Excess Default Loss in respect of the Defaulting Clearing Participant's Cleared Contracts in other currencies, other than the Defaulting Clearing Participant's Cleared Contracts in the currency for which calculation of loss pursuant to the provisions of Article 102.1 has been completed and the Defaulting Clearing Participant's Cleared Contracts in the currency in respect of which Clearing Contracts are terminated pursuant to the provisions of Article 97.1.

Article 103. Recovery of Losses with IRS Settlement Guarantee Reserve

1 If any loss arises against JSCC as a result of the calculation under Article 102, JSCC shall recover, by each currency of the Defaulting Clearing Participant's Cleared Contracts, the loss calculated by each currency in respect of the Defaulting Clearing Participant's Cleared Contracts corresponding to the amount of such loss (other than those items excluded by the Subordinate Rules²⁴⁴), and any other losses for each currency in respect of the Defaulting Clearing Participant's Cleared Contracts prescribed in the Subordinate Rules²⁴⁵ that have arisen in the course of the settlement of default of the Defaulting Clearing Participant by the Initial Loss-Determination Date ("Excess Default Loss"), in the order and in the manner set forth in the following items. For the purpose of these Business Rules, "Clearing Participant Default Settlement" includes the Default Auction and any other necessary actions in resolving the Default of a Defaulting Clearing Participant:

- (1) Application of the First Tier IRS Settlement Guarantee Reserve allocated by each currency type of the Defaulting Clearing Participant's Cleared Contracts in the manner prescribed by JSCC in the Subordinate Rules²⁴⁶;
- (1)-2 Application of the Re-Allocated First Tier IRS Settlement Guarantee Reserve to be allocated to recover the Excess Default Loss pursuant to the provisions of Article 103-2.1;

²⁴³ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 18-2.

²⁴⁴ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 19.1.

²⁴⁵ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 19.2.

²⁴⁶ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 19.3.

- (2) Application of the IRS Clearing Fund deposited by each Clearing Participant other than the Defaulting Clearing Participant with JSCC and the Second Tier IRS Settlement Guarantee Reserve allocated by each currency type of the Defaulting Clearing Participant's Cleared Contracts in the manner prescribed by JSCC in the Subordinate Rules²⁴⁷.

The amount of the IRS Clearing Fund to be applied shall not exceed the Second Tier Clearing Participant Cap applicable to each Clearing Participant minus the amount that has already been used for the recovery of losses pursuant to this Article in respect of other Defaults determined during the same Default Settlement Period, if any, allocated by each currency of the Defaulting Clearing Participant's Cleared Contracts in the manner prescribed by JSCC in the Subordinate Rules.

- (3) Application of the Re-Allocated IRS Clearing Fund to be allocated to recover Excess Default Loss pursuant to the provisions of Article 103-2.2 deposited by the Clearing Participants required to participate in the Default Auction related to the Defaulting Clearing Participant's Cleared Contracts in the currency subject to such allocation and the Re-Allocated Second Tier IRS Settlement Guarantee Reserve; and
- (4) Application of the Re-Allocated IRS Clearing Fund to be allocated to recover Excess Default Loss pursuant to the provisions of Article 103-2.2 deposited by the Clearing Participant not required to participate in the Default Auction related to the Defaulting Clearing Participant's Cleared Contracts in the currency subject to such allocation.

2 If the funds set forth in Paragraph 1.(2) are sufficient to recover the remaining Losses Resulting from Default Settlement, the amount and the order of the IRS Clearing Fund deposited by each Clearing Participant other than the Defaulting Clearing Participant with JSCC and the Second Tier IRS Settlement Guarantee Reserve to be used for such recovery shall be determined in the following manner:

²⁴⁷ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 19.4.

- (1) The total of the IRS Clearing Fund allocated by each currency of the Defaulting Clearing Participant's Cleared Contracts pursuant to the provisions of Paragraph 1.(2) to be used for this purpose (referred to as "Second Tier Clearing Participants Contributions" in this paragraph) and the amount of the Second Tier IRS Settlement Guarantee Reserve allocated by each currency of the Defaulting Clearing Participant's Cleared Contracts pursuant to the provisions of Paragraph 1.(2) to be used for this purpose shall be determined by prorating the remaining Excess Default Loss according to the ratio of the total sum of the Second Tier Clearing Participant Caps for the relevant currency of the Defaulting Clearing Participant's Cleared Contracts applicable to all Clearing Participants other than the Defaulting Clearing Participant and the amount of the Second Tier IRS Settlement Guarantee Reserve so allocated.
- (2) The IRS Clearing Fund deposited with JSCC by each Clearing Participant other than the Defaulting Clearing Participant required to participate in the relevant Default Auction, and allocated pursuant to the provisions of Paragraph 1.(2) shall be used in the following order:
 - a. IRS Clearing Fund deposited with JSCC by a Clearing Participant who is required but failed to participate in either:
 - i) the Default Auction in respect of such Defaulting Clearing Participant; or
 - ii) any other Default Auction conducted earlier during the Default Settlement Period in which the Default Determination Date of the Defaulting Clearing Participant occurs,unless the Clearing Participant made a successful bid in any of the earlier Default Auctions during the said Default Settlement Period and, if there are any, has participated in all subsequent Default Auctions:

The amount of the Clearing Participant's contribution to the IRS Clearing Fund used shall be determined by prorating the Second Tier Clearing Participants Contributions according to the Second Tier Clearing Participant Cap of each Clearing Participant captured by this item but limited to the Second Tier Clearing Participant Cap of each Clearing Participant.

- b. IRS Clearing Fund deposited with JSCC by a Clearing Participant required to participate in the Default Auction whose bid price at the Default Auction in respect of such Defaulting Clearing Participant or any other Default Auction conducted earlier during the Default Settlement Period in which the Default Determination Date in respect of the relevant Defaulting Clearing Participant occurs and in which the Clearing Participant is required to participate falls on the prices prescribed in the Subordinate Rules²⁴⁸ as significant deviation from the prevailing market price (referred to as “Deviated Price” in this sub-item b. and Paragraph 4.(2)), provided that if a Clearing Participant falling under this b. made a successful bid on Auction Transactions in any of the above-mentioned earlier Default Auctions and its bid price at all Default Auctions conducted thereafter does not fall on the Deviated Price, or if a Clearing Participant falls under a. above, such Clearing Participant shall not be subject to this b. :

The amount to be used shall be determined by prorating the Second Tier Clearing Participants Contributions less the total sum of the amounts applied to loss recovery pursuant to a. above according to the Second Tier Clearing Participant Cap of each Applicable Clearing Participant, but limited to the Second Tier Clearing Participant Cap of each Clearing Participant.

- c. IRS Clearing Fund deposited with JSCC by each Clearing Participant other than the Defaulting Clearing Participant not subject to a. or b. above or d. below:

The amount to be used shall be determined by prorating Second Tier Clearing Participants Contributions minus the amounts used for loss recovery pursuant to a. and b. above according to the Second Tier Clearing Participant Cap of each Clearing Participant, but limited to the Second Tier Clearing Participant Cap of each Clearing Participant.

- d. IRS Clearing Fund deposited with JSCC by the Clearing Participant who made a successful bid on Auction Transactions in the Default Auction in

²⁴⁸ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 19.3.

respect of the relevant Defaulting Clearing Participant, provided that if such Clearing Participant is subject to a. or b. above, or if such Clearing Participant would have been subject to a. or b. above had its Clearing Fund been used, in respect of the most recent Default Auction held prior to the relevant Default Auction during the relevant Default Determination Period, IRS Clearing Fund of that Clearing Participant shall be included in this d.:

The amount to be used shall be Second Tier Total Amount Borne by Clearing Participants remaining after loss recovery as set forth in a. through c. above.

3 If the funds set forth in Paragraph 1.(3) are sufficient to recover the remaining Excess Default Loss, the amount of the Re-Allocated IRS Clearing Fund and the Re-Allocated Second Tier IRS Settlement Guarantee Reserve to be used for such recovery pursuant to Paragraph 1.(3) shall be determined in the following manner:

- (1) The amount to be applied from the Re-Allocated IRS Clearing Fund deposited by Clearing Participants other than the Defaulting Clearing Participant and the Re-Allocated Second Tier IRS Settlement Guarantee Reserve shall be such remaining amount prorated according to the ratio of the total amount of the Re-Allocated IRS Clearing Fund under Paragraph 1.(3) and (4) and the amount of the Re-Allocated Second Tier IRS Settlement Guarantee Reserve;
- (2) The provisions of Paragraph 2.(2) shall apply *mutatis mutandis* when applying the Re-Allocated IRS Clearing Fund under Paragraph 1.(3) out of the IRS Clearing Fund deposited with JSCC by Clearing Participants other than the Defaulting Clearing Participant required to participate in the relevant Default Auction, whereby the reference to “IRS Clearing Fund” and “Second Tier Clearing Participant Cap” in Paragraph 2.(2) shall be deemed to be replaced with “the amount of the Re-Allocated IRS Clearing Fund” and the “Second Tier Total Amount Borne by Clearing Participants” shall be deemed to be replaced with “the remaining Excess Default Loss.”

4. If the funds set forth in Paragraph 1.(4) are sufficient to recover the remaining Excess Default Loss, the amount of the Re-Allocated IRS Clearing Fund under

Paragraph 1.(4) to be used for such recovery shall be the amount specified below according to the order of the Re-Allocated IRS Clearing Fund below:

- (1) Re-Allocated IRS Clearing Fund deposited with JSCC by a Clearing Participant not required to participate and had not participated in the Default Auction:

The greater of the remaining Excess Default Loss prorated according to the Re-Allocated IRS Clearing Fund Contribution Cap in respect of each Clearing Participant subject to this item, and the Re-Allocated IRS Clearing Fund Contribution Cap in respect of the relevant Clearing Participant. For the purpose of this paragraph, the “Re-Allocated IRS Clearing Fund Contribution Cap” means the amount of the Re-Allocated IRS Clearing Fund to be applied pursuant to the provisions of Paragraph 1.(4) less the amount which have already been applied to recover loss arising against JSCC in respect of other Default the occurrence of which was determined during the same Default Settlement Period pursuant to the provisions of this Article, if any.

- (2) Re-Allocated IRS Clearing Fund deposited with JSCC by a Clearing Participant not required to participate, but participated in the Default Auction with the Deviating Price:

The greater of the amount remaining after the application made under Item (1) above prorated according to the Re-Allocated IRS Clearing Fund Contribution Cap in respect of each Clearing Participant subject to this item and the Re-Allocated IRS Clearing Fund Contribution Cap in respect of the relevant Clearing Participant.

- (3) Re-Allocated IRS Clearing Fund deposited with JSCC by a Clearing Participant not required to participate in the Default Auction other than those mentioned in Items (2) and (4):

The greater of the amount remaining after the application made under Item (2) above prorated according to the Re-Allocated IRS Clearing Fund Contribution Cap in respect of each Clearing Participant subject to this item and the Re-Allocated IRS Clearing Fund Contribution Cap in respect of the relevant Clearing Participant.

- (4) Re-Allocated IRS Clearing Fund deposited with JSCC by the Clearing Participant not required to participate, but participated in the Default Auction and won the bid on the Auctioned Transaction:

The amount remaining after the application made under Item (3).

5 The use of the IRS Clearing Fund deposited by each Clearing Participant with JSCC as well as the Re-Allocated IRS Clearing Fund under Paragraph 1.(3) and (4) for loss recovery under Paragraphs 2, 3 and 4 shall constitute the payment obligation of the relevant Clearing Participant owed to JSCC in the amount so used. The IRS Clearing Fund and the Re-Allocated IRS Clearing Fund under Paragraph 1.(3) and (4) shall be deemed to have been contributed for loss recovery pursuant to Paragraphs 1 to 4 on the Initial Loss-Determination Date without any further instruction from JSCC or any Clearing Participant and through an offset of the claim of JSCC in the above mentioned obligation against the Non-Defaulting Clearing Participant's right to claim a return of IRS Clearing Fund and the Re-Allocated IRS Clearing Fund under Paragraph 1.(3) and (4) in the amount equal to such obligations.

6 The IRS Clearing Fund deposited by a Clearing Participant that is a Specified Successor Financial Institution will be used as the IRS Clearing Fund falling under Paragraph 2.(2).c. according to the order as set forth in Paragraph 2.(2).c.

7 The provisions of this Article 103.2.(2) (including the case where these provisions apply *mutatis mutandis* pursuant to the provision of Paragraph 3) and Article 103.4 shall apply to the Clearing Participant when another person is acting on its behalf in the default settlement as set forth in Article 9.1.(3).b. In this case, the following terms shall be construed as follows:

- (1) Participation in a Default Auction shall include a bid by another person acting on behalf of the Clearing Participant.
- (2) A successful bid shall include a successful bid made by another person in a Default Auction on behalf of the Clearing Participant.
- (3) A Clearing Participant's bid in the Default Auction evaluated against the

acceptable price set by JSCC shall include a bid made in a Default Auction by another person on behalf of the Clearing Participant.

Article 103-2. Allocation of IRS Settlement Guarantee Reserve and other Resources for Defaulting Clearing Participant's Cleared Contracts in Different Currencies

1 When the Defaulting Clearing Participant's Cleared Contracts are comprised of JPY Cleared Contracts and Foreign Currency Cleared Contracts or Foreign Currency Cleared Contracts in multiple currencies, and if the First Tier IRS Settlement Guarantee Reserve applied pursuant to Article 103.1.(1) in respect of the Defaulting Clearing Participant's Cleared Contracts in a certain currency was sufficient to recover the Excess Default Loss, the remaining amount of the First Tier IRS Settlement Guarantee Reserve prorated in the manner prescribed by JSCC in the Subordinate Rules²⁴⁹ shall be allocated as the Re-Allocated First Tier IRS Settlement Guarantee Reserve set forth in Article 103.1.(1)-2 to be applied to recover the Excess Default Loss arising from the Defaulting Clearing Participant's Cleared Contracts in other currencies, other than the Defaulting Clearing Participant's Cleared Contracts in the currency for which calculation of loss pursuant to the provisions of Article 102.1 has been completed and the Defaulting Clearing Participant's Cleared Contracts in the same currency as the Cleared Contracts terminated pursuant to the provisions of Article 97.1.

2 When the Defaulting Clearing Participant's Cleared Contracts are comprised of JPY Cleared Contracts and Foreign Currency Cleared Contracts or Foreign Currency Cleared Contracts in multiple currencies, and if the IRS Clearing Fund and the Second Tier IRS Settlement Guarantee Reserve applied pursuant to Article 103.1.(2) in respect of the Defaulting Clearing Participant's Cleared Contracts in a certain currency were sufficient to recover the Excess Default Loss, the remaining amount of the IRS Clearing Fund and the Second Tier IRS Settlement Guarantee Reserve prorated in the manner prescribed by JSCC in the Subordinate Rules²⁵⁰ shall be allocated as the Re-Allocated IRS Clearing Fund and the Re-Allocated Second Tier IRS Settlement Guarantee Reserve set forth in Article 103.1.(3) and (4) to be applied to recover the Excess Default Loss arising from the Defaulting Clearing Participant's Cleared Contracts in other

²⁴⁹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 19-2.

²⁵⁰ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 19-2.

currencies, other than the Defaulting Clearing Participant's Cleared Contracts in the currency for which calculation of loss pursuant to the provisions of Article 102.1 has been completed and the Defaulting Clearing Participant's Cleared Contracts in the same currency as the Cleared Contracts terminated pursuant to the provisions of Article 97.1.

Article 104. Special Provisions for IRS Clearing Fund in Default Settlement Period

1 Notwithstanding the Subordinate Rules referred to in Article 17.2 hereof, the Required IRS Clearing Fund for each Clearing Participant during the Default Settlement Period shall remain unchanged from the Required IRS Clearing Fund for each Clearing Participant applicable on the JSCC Business Day immediately preceding the first day of such Default Settlement Period, except as set forth in Paragraph 3.

2 If the IRS Clearing Fund is used in whole or in part for a loss recovery during the Default Settlement Period pursuant to Article 103.1.(2) to (4), notwithstanding the provisions of Paragraph 2 of Article 17, a Clearing Participant shall not be required to make additional deposit to the IRS Clearing Fund.

3 Notwithstanding the provisions of Paragraph 1 above, the Required IRS Clearing Fund for each Clearing Participant as of the last day of the Default Settlement Period shall be, for each Clearing Participant, the amount calculated on the last day of such Default Settlement Period. Such Required IRS Clearing Fund shall apply until the day immediately preceding the date of resumption of the calculation of the Required IRS Clearing Fund²⁵¹ pursuant to Article 17.2 hereof. In this case, if the amount of IRS Clearing Fund and the Default Contingent Margin deposited by a Clearing Participant with JSCC as of the last day of the Default Settlement Period falls short of the Required IRS Clearing Fund applicable on the last day of the Default Settlement Period, such Clearing Participant shall deposit with JSCC an amount at least equal to such shortfall by 2:00 p.m. on the next JSCC Business Day following the last day of the Default Settlement Period.

Article 105. Recovery of Losses with Third Tier Special Clearing Charge

1 If Excess Default Loss is not fully recovered in the manner set forth in Article 103, Clearing Participants other than the Defaulting Clearing Participant existing as of the Default Determination Date (referred to as "Participant(s) Bearing Third Tier Special Clearing Charge") shall assume the obligation to pay the Third Tier Special Clearing

²⁵¹ cf. Rules on Required IRS Clearing Fund, Appendix

Charge to JSCC in the manner prescribed in the Subordinate Rules²⁵². In such case, JSCC shall apply such Third Tier Special Clearing Charges paid by the Participants Bearing Third Tier Special Clearing Charge to the recovery of Excess Default Loss remaining after application of funds set forth in Article 103.

2 The amount of the Third Tier Special Clearing Charge set forth in Paragraph 1 shall be determined for each Participant Bearing Third Tier Special Clearing Charge according to the Subordinate Rules²⁵³ in respect of each, provided that such amount shall not be more than the Required IRS Clearing Fund as of the JSCC Business Day immediately preceding the first day of the prevailing Default Settlement Period prorated in respect of each currency of the Defaulting Clearing Participant's Cleared Contracts in the manner prescribed by JSCC in the Subordinate Rules²⁵⁴.

Article 105-2. Allocation of Third Tier Special Clearing Charge for Defaulting Clearing Participant's Cleared Contracts in Different Currencies

When the Defaulting Clearing Participant's Cleared Contracts are comprised of JPY Cleared Contracts and Foreign Currency Cleared Contracts or Foreign Currency Cleared Contracts in multiple currencies, and if the Third Tier Special Clearing Charge in respect of the Defaulting Clearing Participant's Cleared Contracts in a certain currency was sufficient to recover the Excess Default Loss under Article 105.1, the remaining amount of the Third Tier Special Clearing Charge prorated in the manner prescribed by JSCC in the Subordinate Rules²⁵⁵ shall be allocated as the Re-Allocated Third Tier Special Clearing Charge to be applied to recover the Excess Default Loss arising from the Defaulting Clearing Participant's Cleared Contracts in other currencies, other than the Defaulting Clearing Participant's Cleared Contract in the currency for which calculation of loss pursuant to the provisions of Article 102.1 has been completed and the Defaulting Clearing Participant's Cleared Contracts in the same currency as the Cleared Contracts terminated pursuant to the provisions of Article 97.1.

²⁵² *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 20.

²⁵³ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 21.1.

²⁵⁴ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 21.2.

²⁵⁵ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 21-2.

Article 106. Recovery of Losses with Fourth Tier Special Clearing Charge

1 If, as a result of the recovery of losses as set forth in Article 105, Excess Default Loss still remains unrecovered, the Fourth Tier Special Clearing Charge (defined in Paragraph 2 below) by each type of currency related to the relevant Defaulting Clearing Participant's Cleared Contracts shall be paid by Participants Bearing Fourth Tier Special Clearing Charge (defined below) to JSCC in the manner prescribed by JSCC in the Subordinate Rules²⁵⁶. JSCC shall apply such Fourth Tier Special Clearing Charges paid by the Participants Bearing Fourth Tier Special Clearing Charge to recover the remaining Excess Default Loss, other than loss designated by JSCC in the Subordinate Rules²⁵⁷.

As used herein, the "Participants Bearing Fourth Tier Special Clearing Charge" means the Clearing Participants other than the Defaulting Clearing Participant existing as of the Default Determination Date whose aggregate receiving Cash Settlement Amount is greater than its aggregate paying Cash Settlement Amount in respect of all Cleared Contracts in the same currency as the Defaulting Clearing Participant's Cleared Contracts given rise to such Excess Default Loss that have existed from the Default Determination Date through the Initial Loss-Determination Date, including the Cleared Contracts that have come into effect after the Default Determination Date and the Cleared Contracts that have been terminated before the Initial Loss-Determination Date.

2 The Fourth Tier Special Clearing Charge by each type of currency related to the relevant Defaulting Clearing Participant's Cleared Contracts shall be the amount determined as set out in the Subordinate Rules²⁵⁸ for each Participant Bearing Fourth Tier Special Clearing Charge, provided that such amount shall not be more than the amount calculated according to the following formula, over the period from the Default Determination Date, or, if the settlement of the Defaulting Clearing Participant's Clearing Contracts in the relevant currency between JSCC and the Defaulting Clearing Participant have been completed as of the Default Determination Date, the next JSCC

²⁵⁶ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 20.

²⁵⁷ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 21-4.

²⁵⁸ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 22.

Business Day following the Default Determination Date, to the Initial Loss-Determination Date:

The sum of the total Cash Settlement Amount which JSCC could not receive from the Defaulting Clearing Participant in respect of the Defaulting Clearing Participant's Cleared Contracts in each currency and the total Cash Settlement Amount payable by JSCC to Clearing Participants in respect of any Hedge Transactions for each currency deemed as Clearing Contracts pursuant to the provisions of Article 93.2 and any Cross Margining Liquidation Transactions less the Cash Settlement Amount receivable by JSCC from such Clearing Participant, prorated according to each Clearing Participant's proportion of the net Cash Settlement Amount paid by JSCC to all Participants Bearing Fourth Tier Special Clearing Charge as a result of all Cleared Contracts²⁵⁹ of Participants Bearing Fourth Tier Special Clearing Charge.

3 JSCC shall recover the loss to be excluded from the Excess Default Loss remaining after recovery under Article 105 as set forth in Paragraph 1 in the manner prescribed in the Securities and Similar Contracts Business Rules.

Article 107. Deposit of Special Clearing Charge Collateral

1 A Clearing Participant shall be required to deposit Special Clearing Charge Collateral with JSCC in the manner prescribed in the Subordinate Rules²⁶⁰, for the purpose of securing the obligation set forth below (referred to as "Secured Obligations" in this Article 107.3). That collateral is broken down into:

- (1) Third Tier Special Clearing Charge Collateral, to secure obligation relating to the Third Tier Special Clearing Charge; and
- (2) Fourth Tier Special Clearing Charge Collateral, to secure obligation relating to the Fourth Tier Special Clearing Charge.

2 No interest shall accrue on Fourth Tier Special Clearing Charge Collateral.

²⁵⁹ For avoidance of doubt, all Cleared Contracts include all Hedge Transactions under Article 93.

²⁶⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 18, as well as Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Articles 23 and 24.

3 JSCC may apply Special Clearing Charge Collateral to the performance of the Secured Obligations in the manner prescribed in the Rules²⁶¹.

4 Deposit of Third Tier Special Clearing Charge Collateral shall be deemed to be deposit for consumption (*shohi kitaku*) for collateral purpose and deposit of Forth Tier Special Clearing Charge Collateral shall be deemed to be deposit for consumption (*shohi kitaku*) without compensation for collateral purpose.

5 Notwithstanding the provisions of the Civil Code or the Commercial Code, a Clearing Participant shall have the right to claim return of Special Clearing Charge Collateral and assert any other claim, only as prescribed in the Rules.

Article 108. Deposit of Default Contingent Margin

1 A Clearing Participant other than the Defaulting Clearing Participant shall deposit Default Contingent Margin with JSCC for the purpose of securing the obligations of such Clearing Participant to JSCC in connection with Cleared Contracts, including the obligations arising from the termination of such Cleared Contracts.

2 JSCC may apply the Default Contingent Margin it receives remaining after deduction of costs of conversion of Cash into another currency or liquidation of Eligible Securities Collateral to the performance of the Secured Obligations or offset the right to claim the return of Default Contingent Margin against JSCC's claims with respect to Secured Obligations in the same amount, pursuant to the provisions of the provisions of the Rules.

3 The calculation method for the required amount of Default Contingent Margin applicable to a non-Defaulting Clearing Participant shall be set forth in the Subordinate Rules²⁶².

4 JSCC shall notify a non-Defaulting Clearing Participant of the required amount of Default Contingent Margin in the manner specified in the Subordinate Rules²⁶³.

²⁶¹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 25.

²⁶² *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 26.1.

²⁶³ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 26.2.

5 Where the sum of the cash and the value of Eligible Securities Collateral deposited with JSCC as Default Contingent Margin falls short of the required amount of Default Contingent Margin, the Clearing Participant shall deposit the amount equal to such shortfall by 11:00 a.m. of the next JSCC Business Day following the day on which such shortfall occurs with JSCC.

6 If at the end of a Default Settlement Period, a balance of deposited Default Contingent Margin remains, that amount shall be credited to the IRS Clearing Fund on behalf of the Clearing Participant and shall be deemed to have been returned to the Clearing Participant at that time.

7 The provisions of Article 61.3, Article 62 and Article 71 shall apply *mutatis mutandis* to Default Contingent Margin.

Article 109. Failure to Deposit Special Clearing Charge Collateral

If a Clearing Participant fails to deposit the Special Clearing Charge Collateral pursuant to the provisions of Article 107.1, such failure shall be deemed a Default of such Clearing Participant and the provisions set forth in this Chapter shall apply.

Article 110. Adjustment upon Determination of Final Loss

1 When the amount of JSCC's claim against a Defaulting Clearing Participant is determined pursuant to the provisions of Article 101.2 and the amount of such claim exceeds the total amount of Excess Default Loss in respect of such Defaulting Clearing Participant, JSCC shall recover its loss in the amount equal to such excess, separately by each currency of the relevant Defaulting Clearing Participant's Cleared Contracts, in the order and in the manner set forth in the following items, on the day on which the amount of such claim is determined:

- (1) Application of the First Tier IRS Settlement Guarantee Reserve allocated by currencies pursuant to the provisions of Article 103.1.(1);
- (2) Application of IRS Clearing Fund deposited by each Clearing Participant other than the Defaulting Clearing Participant with JSCC and the Second Tier IRS Settlement Guarantee Reserve allocated by currencies pursuant to the provisions of Article 103.1.(2).

The maximum amount of such IRS Clearing Fund that can be used for this purpose shall be the amount of the Required IRS Clearing Fund for the relevant Clearing Participant as of the JSCC Business Day immediately preceding the first date of the Default Settlement Period relating to the relevant Default minus the amount applied pursuant to Article 103;

- (3) Use of the Third Tier Special Clearing Charge payable by each Participant Bearing Third Tier Special Clearing Charge.

The maximum amount that can be used for this purpose shall be the amount of the Third Tier Special Clearing Charge calculated pursuant to the provisions of Article 105.2 as if JSCC's claim were the Excess Default Loss, minus the amount of the Third Tier Special Clearing Charge that has been already paid by such Participant Bearing Third Tier Special Clearing Charge pursuant to the provisions of Article 105.1; and

- (4) Use of the Fourth Tier Special Clearing Charge payable by each Participant Bearing Fourth Tier Special Clearing Charge.

The maximum amount that can be used for this purpose shall be the amount of the Fourth Tier Special Clearing Charge calculated pursuant to the provisions of Article 106.2 as if JSCC's claim were the Excess Default Loss, minus the amount of the Fourth Tier Special Clearing Charge that has been already paid by such Participant Bearing Fourth Tier Special Clearing Charge pursuant to the provisions of Article 106.1.

- 2 Matters necessary in connection with the recovery of loss set forth in the provisions of Paragraph 1 shall be set forth in the Subordinate Rules²⁶⁴.

Article 110-2. Adjustment of Resources for Loss Recovery between Currencies after Determination of Final Loss

If, as a result of recovery of Excess Default Loss determined pursuant to the provisions

²⁶⁴ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 27.

of Article 110, the Resources for Loss Recovery is used to recover the Excess Default Loss in respect of any of the currencies of the Defaulting Clearing Participant's Cleared Contracts, JSCC may make adjustment of the Resources for Loss Recovery among types of currencies in the manner prescribed by JSCC in Subordinate Rules²⁶⁵.

Article 111. Distribution of Amount Collected from Defaulting Clearing Participant

1 After default settlement procedures in respect of a Defaulting Clearing Participant, JSCC shall make the below listed distributions to the persons designated by JSCC in the Subordinate Rules²⁶⁶ in the manner prescribed in the Subordinate Rules²⁶⁷:

- (1) When JSCC receives any payment or dividend in respect of its claim against the Defaulting Clearing Participant under the provisions of Article 101.2:

The amount of such payment and dividend

- (2) When the final amount of JSCC's claim against the Defaulting Clearing Participant under the provisions of Article 101.2 is determined and the amount of the Excess Default Loss is greater than the amount of such claim:

The amount equal to the difference between Excess Default Loss and such final amount.

2 If there is no person entitled to the distribution set forth in Paragraph 1, the treatment of such amount shall be subject to the Subordinate Rules²⁶⁸.

Section 5 Delegation to Subordinate Rules (Article 112)

Article 112. Delegation to Subordinate Rules

In addition to the provisions set forth in this Chapter, matters necessary for settlement of Defaulting Clearing Participant's Cleared Contracts and losses in connection with Default

²⁶⁵ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 27-2.

²⁶⁶ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 28.

²⁶⁷ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 29.

²⁶⁸ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 30.

of a Clearing Participant shall be prescribed in the Subordinate Rules.

Chapter 10 Miscellaneous Provisions (Articles 113 – 127)

Article 113. Temporary Change to Settlement Cutoff Time

JSCC may temporarily change the time by which the obligations related to Cleared Contracts are to be performed ("Settlement Cutoff Time"), only when JSCC determines it necessary due to failure of the systems necessary for settlement of the Cleared Contracts between JSCC and Clearing Participants or any other reason. In such case, JSCC shall notify all Clearing Participants of the change in advance.

Article 114. Postponement of Settlement Date Due to System Failure

1 If JSCC determines it impossible or difficult to perform the obligations relating to the Cleared Contracts in whole or in part on the day when such obligations are to be performed ("Settlement Date") due to failure of the systems necessary for the settlement of the Cleared Contracts between JSCC and Clearing Participants or other circumstances beyond JSCC's reasonable control, JSCC may defer the Settlement Date affected by such reason. In such case, JSCC shall notify the relevant Clearing Participants of such change in advance.

2 Other matters connected with the change of the Settlement Date set forth in Paragraph 1 shall be prescribed by JSCC on each occasion.

Article 115. Act of God

1 If JSCC determines that performance of obligations under Cleared Contracts has become impossible or extremely difficult due to an act of God, economic upheaval or other unavoidable reasons, JSCC may modify due date, methods of performance, or other conditions for performance of such obligations by a resolution of the board of directors of JSCC.

2 Where JSCC has modified the conditions for performance of the obligations related to Cleared Contracts pursuant to the provisions of Paragraph 1, the Clearing Participants shall observe the conditions so modified.

3 In the case set forth in Paragraph 1, if there is an urgent need, JSCC may modify the conditions for performance of the obligations under Cleared Contracts without a

resolution of the board of directors of JSCC.

Article 116. Use of Excess Collateral Delivered in relation to IRS Clearing Business for Other Clearing Business Following Clearing Participant Default

JSCC may use any excess collateral delivered by a Defaulting Clearing Participant in relation to IRS Clearing Business to satisfy the Defaulting Clearing Participant's obligation owed to an Other Clearing Business in accordance with the business rules of the Other Clearing Business. Excess collateral is the amount of Initial Margin, Variation Margin, IRS Clearing Fund, Default Contingent Margin and Special Clearing Charge Collateral, or, if they are deposited in the form of Eligible Securities Collateral, the net proceeds from liquidation of such securities after the payment of liquidation costs, of which the Defaulting Clearing Participant otherwise has the right to claim return from JSCC in connection with IRS Clearing Business, that remains after satisfaction of the Defaulting Clearing Participant's obligations in relation to IRS Clearing Business in accordance with the Rules

Article 117. No Assignment of Claims

Clearing Participants and Customers are prohibited from assigning or committing to assign any of the claims prescribed in these Business Rules, including, but not limited to, the right to claim return of the IRS Clearing Fund or any Margin, to a third party, or furnishing the same as collateral, unless JSCC's written approval has been obtained in advance, the request for which shall be made using the JSCC's prescribed form.

Article 118. Outsourcing

1 JSCC may outsource activities related to the IRS Clearing Business specified by JSCC²⁶⁹ to a person designated by JSCC²⁷⁰.

2 In addition to these Business Rules, Clearing Participants shall comply with the rules and procedures prescribed by the person designated pursuant to Paragraph 1 in connection with the activities set forth in Paragraph 1 and so approved by JSCC.

3 The provisions of Article 18 shall apply *mutatis mutandis* when the activities are outsourced pursuant to the provisions of Paragraph 1 as if such designated person is JSCC.

²⁶⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 45.1.

²⁷⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 45.2.

Article 119. Provision concerning Matters Necessary in connection with IRS Clearing Business

In addition to the matters prescribed in these Business Rules, when JSCC determines it necessary, JSCC may set Subordinate Rules covering other matters relating to the IRS Clearing Business.

Article 120. Associated Business Activities

JSCC shall conduct businesses associated with the Clearing Service set forth in Article 3.

Article 121. Changes to these Business Rules

1 Any changes to the Rules, establishment of new Subordinate Rules or abolition of any existing Rule shall be implemented by JSCC through a resolution of the board of directors of JSCC; provided that in the case of changes to any Rules other than these Business Rules or in the case of any immaterial change, JSCC may implement such change without a board resolution.

2 If JSCC makes a rule change pursuant to the provisions of Paragraph 1, JSCC shall notify the Clearing Participants of the details thereof before it takes effect in the manner separately prescribed by JSCC; provided that such rule change does not affect the claims or obligations of Clearing Participants and Customers or if it is immaterial, such notice may be given promptly after such rule change.

3 When a Clearing Participant receives the notice set forth in Paragraph 2 from JSCC, it shall promptly notify its Customers of the details of the rule change.

4 On and after the effective date of the rule change in accordance with Paragraph 1, JSCC, the Clearing Participants and the Customers shall comply with the provisions of the Rules after such rule change.

Article 122. IRS Management Committee

1 When JSCC intends any rule change as set forth in Article 121 and if such change relates to any of the matters set forth in the following items, JSCC shall consult with the IRS Management Committee about whether such change is appropriate or not, and take account of the IRS Management Committee's opinions, unless such change is

insignificant:

- (1) Matters related to Subject Transactions for Clearing set forth in Article 4;
- (2) Matters related to the eligibility requirements of IRS Clearing Qualification set forth in Article 9;
- (3) Matters related to IRS Clearing Fund set forth in Article 17;
- (4) Matters related to the renunciation of IRS Clearing Qualification by request of the Clearing Participant set forth in Chapter 2, Section 4;
- (5) Matters related to the actions that may be taken against Clearing Participants set forth in Chapter 2, Section 6;
- (6) Matters related to Clearing Brokerage set forth in Chapter 3;
- (7) Matters related to Margins set forth in Chapter 6;
- (8) Matters related to Clearing Deposit set forth in Chapter 8;
- (9) Matters related to the actions to be taken in case of Clearing Participant's Failure of Settlement set forth in Chapter 9;
- (10) Matters related to the method for changing the Rules as set forth in Article 121; and
- (11) Matters related to consultation with the IRS Management Committee as set forth in this Article.

2 In addition to the matters set forth in Paragraph 1, matters related to the IRS Management Committee shall be prescribed in the Subordinate Rules²⁷¹.

Article 123. Nature of Rules

Each provision of the Rules shall, within the applicable scope set forth therein, bind JSCC,

²⁷¹ IRS Management Committee Rules.

the Clearing Participants and the Customers collectively. Each Clearing Participant and each Customer hereby agree that either by executing a Clearing Participant Agreement or by submitting a letter of undertaking set forth in Article 43.2, they will assume claims and obligations vis-à-vis other Clearing Participants or other Customers, including those who become Clearing Participants or Customers in the future, in accordance with the Rules without having any separate agreement with such other Clearing Participants or other Customers.

Article 124. Standard Time

Any reference to year, month, day and time in the Rules shall be the reference to year, month, day and time in Japanese Standard Time unless otherwise prescribed in the Rules

Article 125. Method of Notification

JSCC shall separately prescribe the methods of notifications, public notices and public announcements to be given by JSCC in accordance with the provisions of the Rules²⁷².

Article 126. Governing Law

The Rules, including Clearing Participant Agreements and other agreements which are executed in accordance with the Rules, shall be governed by and construed in accordance with Japanese law.

Article 127. Jurisdiction

The Tokyo District Court of Japan shall have the exclusive jurisdiction for the first instance over any legal action which may become necessary between JSCC and any Clearing Participant or Customer in connection with the Rules

Supplementary Provisions

1. These Business Rules shall come into force as of October 9, 2012 (hereinafter referred to as “Date of Enforcement”), except the provisions of Section 1 of Chapter 2 and Article 122 which shall come into force as of August 20, 2012.

2. In the case where JSCC approves the acquisition of IRS Clearing Qualification

²⁷² cf. Handling Procedures of IRS Clearing Business, Article 46.1, for notification, and Article 46.2 for public notices and public announcements.

by an Applicant pursuant to Article 8.2 hereof and the date on which the Applicant is granted the IRS Clearing Qualification falls before the Date of Enforcement, the provisions of Article 10 shall apply by replacing the phrase “deposit IRS Clearing Funds and follow the other procedures as required by JSCC on or before the JSCC Business Day immediately preceding the Qualification Date” in Article 10.1 with “deposit IRS Clearing Funds by the JSCC Business Day immediately preceding the Date of Enforcement and follow the other procedures as required by JSCC on or before the JSCC Business Day immediately preceding the Qualification Date” and the phrase “the procedures prescribed in Paragraph 1” in Article 10.2 with “the procedures for acquisition of IRS Clearing Qualification prescribed in Paragraph 1 or otherwise prescribed by JSCC”.

3. JSCC may carry out the matters set forth in Items (1) through (3) below even before the date prescribed in the proviso to Paragraph 1 above and the matters set forth in Items (4) through (6) below and necessary procedures and any other acts and things in relation thereto even before the Date of Enforcement pursuant to the applicable provisions of these Rules.

- (1) Grant of IRS Clearing Qualification to the Applicant thereof pursuant to the provisions of Article 8.2 hereof;
- (2) Conducting the examination pursuant to the provisions of Article 9 hereof;
- (3) Execution of a Clearing Participant Agreement pursuant to the provisions of Article 11 hereof;
- (4) Acceptance of notification of the Clearing Participant representative pursuant to the provisions of Article 13 hereof;
- (5) Acceptance of notification of person in charge of supervising the settlement of Clearing Contracts pursuant to the provisions of Article 14 hereof; and
- (6) Acceptance of deposit of IRS Clearing Funds from Clearing Participants pursuant to the provisions of Article 17 hereof.

4. The provisions of Article 80 hereof shall not apply until the lapse of nine (9) months from the Date of Enforcement.

Supplementary Provisions

These amendments shall come into force as of February 25, 2013.

Supplementary Provisions

1. These amendments shall come into force as of March 31, 2013.
2. During the period from March 31, 2013 to March 30, 2014, in applying Article 9.1.(2).b.(b), Article 28.3.(1).b. and (2).b., Article 28.4.(2), Article 28.5.(1).d. and Article 28.6.(2), all as amended, the references to “4.5%” in Article 9.1.(2).b.(b) (i), Article 28.5.(1).d.(a) and Article 28.6.(2).a. shall be read as “3.5%,” the references to “5.625%” in Article 9.1.(2).b.(b).(i), Article 28.3.(1).b.(a) and (2).b.(a), and Article 28.4.(2).a. shall be read as “4.375%,” the references to “6%” in Article 9.1.(2).b.(b).(ii), Article 28.5.(1).d.(b) and Article 28.6.(2).b. shall be read as “4.5%,” and the references to “7.5%” in Article 9.1.(2).b.(b).(ii), Article 28.3.(1).b.(b) and (2).b.(b) and Article 28.4.(2).b. shall be read as “5.625%.”
3. During the period from March 31, 2014 to March 30, 2015, in applying Article 9.1.(2). b.(b), Article 28.3.(1).b. and (2).b., Article 28.4.(2), Article 28.5.(1).d. and Article 28.6.(2), all as amended, the references to “4.5%” in Article 9.1.(2).b.(b).(i), Article 28.5.(1).d.(a) and Article 28.6.(2).a. shall be read as “4%,” the references to “5.625%” in Article 9.1.(2).b.(b).(i), Article 28.3.(1).b.(a) and (2).b.(a) and Article 28.4.(2).a. shall be read as “5%,” the references to “6%” in Article 9.1.(2).b.(b).(ii), Article 28.5.(1).d.(b) and Article 28.6.(2).b. shall be read as “5.5%,” and the references to “7.5%” in Article 9.1.(2).b.(b).(ii), Article 28.3.(1).b.(b) and (2).b.(b) and Article 28.4.(2).b. shall be read as “6.875%.”

Supplementary Provisions

These amendments shall come into force as of May 15, 2013.

Supplementary Provisions

1. These amendments shall come into force as of February 24, 2014.
2. Handling of Clearing and other necessary matters at the time when these Business Rules comes into force shall be determined by JSCC at each time.

Supplementary Provisions

These amendments shall come into force as of the date prescribed by JSCC.

(Note: The date prescribed by JSCC is March 7, 2014.)

Supplementary Provisions

These amendments shall come into force as of March 31, 2014.

Supplementary Provisions

These amendments shall come into force as of April 1, 2014.

Supplementary Provisions

These amendments shall come into force as of November 4, 2014.

Supplementary Provisions

1. These amendments shall come into force as of September 24, 2015.
2. Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after 24 September 2015.

Supplementary Provisions

1. These amendments shall come into force as of October 19, 2015.
2. Notwithstanding the provisions of Paragraph 1, the provisions of Article 2.1.(1) and (1)-2, Article 53-4.6, Article 58-4, Article 58-6 and Article 58-7, as amended, shall come into force as of the date prescribed by JSCC.

(Note: The date prescribed by JSCC is April 11, 2016.)

Supplementary Provisions

1. These amendments shall come into force as of April 11, 2016.

2. Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after April 11, 2016.

Supplementary Provisions

These amendments shall come into force as of December, 19, 2016.

Supplementary Provisions

1. These amendments shall come into force as of January 30, 2017.

2. Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after January 30, 2017.

Supplementary Provisions

These amendments shall come into force as of April 6, 2018.

Supplementary Provisions

1. These amendments shall come into force as of September 25, 2018.

2. Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after September 25, 2018.

Supplementary Provisions

These amendments shall come into force as of April 15, 2019.

Supplementary Provisions

These amendments shall come into force as of September 1, 2019.

Supplementary Provisions

These amendments shall come into force as of August 1, 2020.

Supplementary Provisions

1. These amendments shall come into force as of May 17, 2021.
2. Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after May 17, 2021.

Supplementary Provisions

1. These amendments shall come into force as of December 6, 2021.
2. Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after December 6, 2021.

Supplementary Provisions

1. These amendments shall come into force as of September 19, 2023.

2. Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after September 19, 2023.

Supplementary Provisions

1. These amendments shall come into force as of March 4, 2024.

2. Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after March 4, 2024.

Annex

Term	Section	ISDA Definitions
Confirmation	1.1.9	Confirmation
Business Day	2.2.1	Business Day
Fixed Rate Payer	5.1.3	Fixed Amount Payer
Floating Rate Payer	6.1.2	Floating Amount Payer
Term	3.2.1	Term
Termination Date	3.1.3	Termination Date
Trade Date	3.1.1	Trade Date
Fixed Amount	5.1.2	Fixed Amount
Floating Amount	6.1.3	Floating Amount
Notional Amount	4.4.2	Notional Amount
Payment Date	3.1.8	Payment Date
Business Day Convention	2.3.1	Business Day Convention
Day Count Fraction	4.6.1	Day Count Fraction
Fixed Rate	5.3	Fixed Rate
Floating Rate	6.3.1	Floating Rate
Reset Date	6.5.5	Reset Date
Floating Rate Option	6.5.1	Floating Rate Option
Designated Maturity	6.7.4	Designated Maturity

Attachment 1 : Article 2 (Definition) - Sequenced in Alphabetical order

“Adjustment Amount related to Mark-to-Market Difference (Art. 2, Para. 1, Item (36)-5)

AUD Cleared Contract (Art. 2, Para. 1, Item (15)-2)

Backup Clearing Broker (Art. 2, Para. 1, Item (60)-2)

Blended Rates Compression (Art.2, Para. 1, Item (13)-2)

Business Holiday (Art. 2, Para. 1, Item (9))

Capital-to-Risk Ratio (Art. 2, Para. 1, Item (22))

Cash (Art. 2, Para. 1, Item (9)-2)

Cash Settlement Amount (Art. 2, Para. 1, Item (63)-2)

Cleared Contract (Art. 2, Para. 1, Item (34))

Cleared Contract (Collateral Type) (Art. 2, Para. 1, Item (36)-2)

Cleared Contract (Settlement Type) (Art. 2, Para. 1, Item (35)-2)

Clearing (Art. 2, Para. 1, Item (19))

Clearing Broker (Art. 2, Para. 1, Item (24))

Clearing Brokerage Account (Art. 2, Para. 1, Item (33))

Clearing Brokerage Agreement (Art. 2, Para. 1, Item (31))

Clearing Brokerage Contract (Art. 2, Para. 1, Item (28))

Clearing Brokerage Contract (Collateral Type) (Art. 2, Para. 1, Item (28)-3)

Clearing Brokerage Contract (Settlement Type) (Art. 2, Para. 1, Item (28)-2)

Clearing Brokerage Original Transaction (Art. 2, Para. 1, Item (32))

Clearing Participant (Art. 2, Para. 1, Item (29))

Clearing Participant Agreement (Art. 2, Para. 1, Item (30))

Client Clearing (Art. 2, Para. 1, Item (13)-2-2)

Compression (Art. 2, Para. 1, Item (18)-2)

Consolidated Capital-to-Risk Ratio (Art. 2, Para. 1, Item (67))

Corporate Group (Art. 2, Para. 1, Item (5))

Cross Margined JGB Futures Cleared Contract (Art. 2, Para. 1, Item (13)-6)

Cross Margining (Art. 2, Para. 1, Item (13)-5)

Cross Margining Acceptance (Art. 2, Para. 1, Item (13)-7)

Cross Margining Accepting Party (Art. 2, Para. 1, Item (13)-3)

Cross Margining Requestor (Art. 2, Para. 1, Item (13)-4)

Cross Margining User (Art. 2, Para. 1, Item (13)-8)

Customer (Art. 2, Para. 1, Item (27))

Customer Account (Art. 2, Para. 1, Item (2))

Customer Initial Margin (Art. 2, Para. 1, Item (1)-2)

Customer's Cleared Contract (Art. 2, Para. 1, Item (35))
 Default (Art. 2, Para. 1, Item (59))
 Default Auction (Art. 2, Para. 1, Item (57))
 Default Contingent Margin (Art. 2, Para. 1, Item (55))
 Default Determination Date (Art. 2, Para. 1, Item (60))
 Default Settlement Period (Art. 2, Para. 1, Item (56))
 Defaulting Clearing Participant (Art. 2, Para. 1, Item (58))
 Designated Market Operator (Art. 2, Para. 1, Item (23)-2)
 Documents Setting Forth Handling of ISDA-Based Documents (Art. 2, Para. 1, Item (70))
 Early Termination (Art. 2, Para. 1, Item (6))
 Early Termination Charge (Art. 2, Para. 1, Item (7))
 Eligible IRS Transaction (Art. 2, Para. 1, Item (47))
 Eligible Securities Collateral (Art. 2, Para. 1, Item (45))
 EUR Cleared Contract (Art. 2, Para. 1, Item (68)-2)
 Failure of Settlement (Art. 2, Para. 1, Item (15))
 First Tier IRS Settlement Guarantee Reserve (Art. 2, Para. 1, Item (38))
 Fixed Resources for Loss Recovery (Art. 2, Para. 1, Item (18))
 Foreign Currency Cleared Contract (Art. 2, Para. 1, Item (4)-3)
 Foreign Currency Home Business Day (Art. 2, Para. 1, Item (4)-4)
 Foreign Currency Home Holiday (Art. 2, Para. 1, Item (4)-5)
 Fourth Tier Special Clearing Charge (Art. 2, Para. 1, Item (43))
 Fourth Tier Special Clearing Charge Collateral (Art. 2, Para. 1, Item (44))
 Funds (Art. 2, Para. 1, Item (10))
 Hedge Account (Art. 2, Para. 1, Item (62)-3)
 Initial Margin (Art. 2, Para. 1, Item (50))
 Intraday Margin (Art. 2, Para. 1, Item (54))
 IRS Clearing Fund (Art. 2, Para. 1, Item (11))
 IRS Clearing Qualification (Art. 2, Para. 1, Item (12))
 IRS Transaction (Art. 2, Para. 1, Item (13))
 ISDA (Art. 2, Para. 1, Item (69))
 ISDA Definitions (Art. 2, Para. 1, Item (72))
 ISDA Master Agreement (Art. 2, Para. 1, Item (71))
 Japanese Standard (Art. 2, Para. 1, Item (17))
 JGB Futures Backup Clearing Broker (Art. 2, Para. 1, Item (15)-8)
 JGB Futures Cleared Contract (Art. 2, Para. 1, Item (15)-5)

JGB Futures Clearing Participant (Art. 2, Para. 1, Item (15)-6)
JGB Futures Contract (Art. 2, Para. 1, Item (15)-9)
JGB Futures Non-Clearing Participant (Art. 2, Para. 1, Item (15)-7)
JGB Futures Position Transfer (Art. 2, Para. 1, Item (15)-3)
JGB Futures Successor Clearing Broker (Art. 2, Para. 1, Item (15)-4)
JPY Cleared Contract (Art. 2, Para. 1, Item (2)-3)
JSCC Business Day (Art. 2, Para. 1, Item (49))
JSCC-Initiated Compression (Art. 2, Para. 1, Item (72)-2)
Legal Entity (Art. 2, Para. 1, Item (64))
Liquid Resources for Loss Recovery (Art. 2, Para. 1, Item (66))
Margin (Art. 2, Para. 1, Item (25))
Mark-to-Market Difference (Art. 2, Para. 1, Item (36)-3)
Mark-to-Market Difference And Adjustment Amount (Art. 2, Para. 1, Item (36)-4)
Member-Initiated Compression (Art.2, Para. 1, Item (20)-2)
Net Capital (Art. 2, Para. 1, Item (21))
Net Present Value (Art. 2, Para. 1, Item (26))
New York Business Day (Art. 2, Para. 1, Item (54)-2)
Non-hedge Account (Art. 2, Para. 1, Item (54)-4)
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Officer (Art. 2, Para. 1, Item (68))
Other Clearing Business (Art. 2, Para. 1, Item (46))
Parent Company (Art. 2, Para. 1, Item (3))
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Position (Art. 2, Para. 1, Item (45)-2)
Position Transfer (Art. 2, Para. 1, Item (24)-2)
Proprietary Account (Art. 2, Para. 1, Item (23))
Proprietary Cleared Contract (Art. 2, Para. 1, Item (36))
Resources for Loss Recovery (Art. 2, Para. 1, Item (37))
Rules (Art. 2, Para. 1, Item (65))
Second Tier Clearing Participant Cap (Art. 2, Para. 1, Item (40))
Second Tier IRS Settlement Guarantee Reserve (Art. 2, Para. 1, Item (39))
Securities and Similar Contracts Business Rules (Art. 2, Para. 1, Item (24)-4)
Settlement Amount (Art. 2, Para. 1, Item (14))
Special Clearing Charge (Art. 2, Para. 1, Item (51))
Special Clearing Charge Collateral (Art. 2, Para. 1, Item (52))

Subordinate Rules (Art. 2, Para. 1, Item (8))
Substituted Initial Margin (Art. 2, Para. 1, Item (20))
Successor Clearing Broker (Art. 2, Para. 1, Item (24)-3)
Sydney Business Day (Art. 2, Para. 1, Item (23)-3)
TARGET Settlement Day (Art. 2, Para. 1, Item (73))
Third Tier Special Clearing Charge (Art. 2, Para. 1, Item (41))
Third Tier Special Clearing Charge Collateral (Art. 2, Para. 1, Item (42))
Transaction Side (Art. 2, Para. 1, Item (53))
Transfer (Art. 2, Para. 1, Item (1))
Uniform International Standard (Art. 2, Para. 1, Item (16))
Unwind Fee (Art. 2, Para. 1, Item (4)-2)
USD Cleared Contract (Art. 2, Para. 1, Item (62)-2)
Variation Margin (Art. 2, Para. 1, Item (63))
Vendor-Initiated Compression (Art. 2, Para. 1, Item (2)-2)

Note : Some of the terminology used in Japan Financial Instruments and Exchange Act, such as such “Assumption of Obligation” or “Brokerage for Securities, etc.”(English Translation of the corresponding Japanese word) are replaced with commonly used terminology, such as “Clearing” or “Clearing Brokerage”, so that non-Japanese readers could understand easily.

Attachment 2 : Terms not Defined in Article 2

Definition	Provision in which it is defined	Provisions to which such definition apply
Subject Transaction for Clearing	Article 4	All
Applicant	Article 8.2	All
Qualification Date	Article 8.4	Articles 8 to 12
Guaranteed Applicant	Article 8.5	Articles 8 to 12
Special Operator	Article 9.1.(2).a.(c)	All
Financial Institution subject to Japanese Standard	Article 9.1.(2).b.(c)	All
Required IRS Clearing Fund	Article 17.2	All
Instruction to Improve	Article 28.1	All
Suspension of Cross Margining / Suspend Cross Margining)	Article 28.1	All
Margin Required to Clear	Article 49.1	All
Clearing Requirements	Article 49.1	All
First Clearing Participant	Article 49.1	Article 49
Second Clearing Participant	Article 49.1	Article 49
Application for Exchanging Mark-to-Market Difference, etc.	Article 51-2.1	All
VM-as-Settlement Requirements	Article 51-2.2	All
Per Trade Compression Conditions	Article 53.2	All
Blended Rates Compression Conditions	Article 53-2.2	All
Vendor-Initiated Compression Conditions	Article 53-2-2.2	All
Member-Initiated Compression Conditions	Article 53-2-3.2	All
Affiliated Customer	Articles 54	Articles 54, 55 & 57
Designated Counterparty	Article 54.1	All
Original Counterparty	Article 54.4	Articles 54, 54-2 & 58
Carrying Clearing Broker	Article 58-2.3	All
Relevant Cleared Contracts	Article 58-2.3	Articles 58-2 to 58-5

Position Transfer Request Date	Article 58-3.1	All
Position Transfer Date	Article 58-3.4.(1)	All
Receiving Customer	Article 58-4.1	All
Transferring Customer	Article 58-4.1	Articles 58-4 & 58-5
Transfer Request Date	Article 58-5.1	All
Clearing Participant Account	Article 59.1	All
Proprietary Account	Article 59.2	All
Customer Account	Article 59.2	All
Sub-Accounts	Article 59.5	All
Clearing Brokerage Account	Article 60.1	All
Obligations to be Collateralized	Article 61.1	Article 61.2
Initial Margin Deposited Amount	Article 66.1	All
Cross Margining MtM Difference	Article 77-2.1	All
Clearing Yield Curve	Article 79.3	All
Clearing Participant Net Payable	Article 85-2.1	Article 85-2
Unpaid Amount	Article 85-5.1	All
Clearing Participant Failing Settlement	Article 85-5.2	All
Failed Participant	Article 89.1	All
Matters for Consultation	Article 92.1	Article 92.2
Hedge Transaction	Article 93.1	All
Default Auction	Article 95.1	All
Auction Transactions	Article 95.3	All
Defaulting Clearing Participant Payment Amount	Article 101.1.(2).a.	All
Initial Loss Determination Date	Article 102.1	All
Excess Default Loss	Article 103.1	All
Second Tier Clearing Participants Contributions	Article 103.2.(1)	Article 103.2
Participants Bearing Third Tier Special Clearing Charge	Article 105.1	Article 105
Participants Bearing Fourth Tier Special Clearing Charge	Article 106.1	Article 106
Secured Obligations	Article 107.1	Article 107.3
Rule Change	Article 121.1	Article 121 & 122

