

Rules on Default Settlement Regarding
Clearing Participants in Relation to IRS Clearing Business

Original Document Title : 金利スワップ取引清算業務に関する清算参加者の破綻処理に関する規則

Note : 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.

Table of Contents

Chapter 1 General Provisions (Articles 1 - 8)	2
Chapter 2 Default Auction (Articles 9 - 14)	13
Chapter 3 Consultation (Articles 15 - 17)	18
Chapter 3-2 Allocation of Initial Margin Deposited by Defaulting Clearing Participant (Articles 17-2 – 17-3)	21
Chapter 4 Sharing of Losses by Other Clearing Participants (Articles 18 – 22)	22
Chapter 5 Special Clearing Charge Collateral (Articles 23 – 27)	32
Chapter 5-2 Adjustment of Resources for Loss Recovery between Currencies after Determination of Final Loss (Article 27-2)	39
Chapter 6 Distribution of Collected Amount (Articles 28 - 32)	42

Chapter 1 General Provisions (Articles 1 - 8)

Article 1. Purpose

The purpose of these Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business (these “Default Settlement Rules”) is to set forth the matters necessary for the Default Auction and the procedures for settlement of, and treatment of losses from, the Defaulting Clearing Participant’s Cleared Contracts upon occurrence of a Default of a Clearing Participant under the IRS Clearing Business Rules (“Business Rules”) established by Japan Securities Clearing Corporation (“JSCC”).

Article 2. Definitions

Unless otherwise set forth in these Default Settlement Rules, the terms used in these Default Settlement Rules shall have the same meaning as used in the Business Rules. In addition, the following terms shall have the meanings defined below:

- (1) “Default Auction Date” means the date of a Default Auction to be determined by JSCC at each occurrence taking account of an advice of the IRS Default Management Committee.
- (2) “Successful Bidder” means the Clearing Participant who won a bid on the Auction Transactions at the Default Auction.
- (3) “Successful Bid Amount” means the amount payable by JSCC to the Successful Bidder upon the execution of the Auction Transactions pursuant to Article 14.2. If such amount is negative, the Successful Bidder shall pay the amount equal to the absolute value of such amount to JSCC upon the execution of the Auction Transactions.

Article 3. First Tier IRS Settlement Guarantee Reserve

1 JSCC will set aside 2 billion JPY as the First Tier IRS Settlement Guarantee Reserve.

2 In the case where all or part of the First Tier IRS Settlement Guarantee Reserve is used entirely or in part in accordance with the Business Rules, etc., JSCC will set aside the same amount as the portion so used as First Tier IRS Settlement Guarantee Reserve at each occasion. The sum total of the reserve under the provisions of this Paragraph shall not be more than 2 billion JPY.

Article 4. Second Tier IRS Settlement Guarantee Reserve

1 JSCC will set aside 2 billion JPY as the Second Tier IRS Settlement Guarantee Reserve.

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

Article 5. Principle of Settling Default Separately

Unless otherwise set forth in the Rules, where Defaults are determined with respect to multiple Clearing Participants, each of the following matters shall be performed and handled separately for each Defaulting Clearing Participant and for each currency type of the Defaulting Clearing Participant's Cleared Contracts:

- Calculation of the Early Termination Charge;
- Position Transfer set forth in Article 94.1 of the Business Rules;
- Hedge Transactions and Cross Margining Liquidation Transactions;
- Default Auction;
- Another Default Auction or consultation held in accordance with Article 95-2 of the Business Rules and agreement reached in accordance with Article 96.2 of the Business Rules or Compulsory Termination of all Cleared Contracts if an agreement is not reached;
- Calculation and payment of the Special Clearing Charge payable by each Clearing Participant to JSCC;

- Calculation of the Special Clearing Charge Collateral to be deposited by each Clearing Participant with JSCC;
- Calculation and recovery of the Excess Default Loss (including the amounts used from the First Tier IRS Settlement Guarantee Reserve, the Second Tier IRS Settlement Guarantee Reserve, and/or the IRS Clearing Fund for the loss recovery);
- Adjustments to JSCC's claims against the Defaulting Clearing Participant;
- Other matters related to the determination of a Default; and
- Application of the provisions of the Rules to the above.

Article 6. Early Termination Charge Regarding Defaulting Clearing Participant's Cleared Contracts

1 The Early Termination Charge by each currency of the Defaulting Clearing Participant's Cleared Contracts that becomes due between JSCC and the Defaulting Clearing Participant upon the Compulsory Termination of the Defaulting Clearing Participant's Cleared Contracts in accordance with Article 91 of the Business Rules shall be the amount obtained in the following manner (or Japanese yen equivalent of that amount converted using the quotes of foreign exchange rate prescribed by JSCC in a public notice, for the Early Termination Charge that becomes due upon the Compulsory Termination of the Foreign Currency Cleared Contracts):

- (1) Upon execution of Auction Transactions put up for the Default Auction between JSCC and the Successful Bidder:

If JSCC is to pay the net of the amounts set forth in a. and b. below, the Early Termination Charge payable by the Defaulting Clearing Participant to JSCC in respect of the Defaulting Clearing Participant's Cleared Contracts shall be the amount payable by JSCC. If JSCC is to receive such an amount, the Early Termination Charge payable by JSCC to the Defaulting Participant for the Defaulting Clearing Participant's Cleared Contracts shall be the amount receivable by JSCC.

- a. The Successful Bid Amount settled between JSCC and the Successful Bidder Clearing Participant upon the execution of the Auction

Transactions (The Successful Bid Amount minus the net Mark-to-Market Difference (amount deducting the gross receipts from the gross payments of Mark-to-Market Difference) related to the relevant Defaulting Clearing Participant's Cleared Contracts which have been paid to JSCC by such Defaulting Clearing Participant, when such Cleared Contracts are Cleared Contracts (Settlement Type)); and

- b. The Fixed Amounts, Floating Amounts and other Cash (excluding Variation Margin) that should have been settled between JSCC and the Defaulting Clearing Participant had the Defaulting Clearing Participant's Cleared Contracts not been subject to the Compulsory Termination, and the Fixed Amounts, the Floating Amounts and other Cash (excluding Variation Margin and Mark-to-Market Difference) settled between JSCC and the Clearing Participants in connection with the Hedge Transactions and the Cross Margining Liquidation Transactions during the period from the Default Determination Date to the Default Auction Date.

- (2) Where the Default Auction is held but the Auction Transactions are not executed because an agreement is reached or failed through the consultation held in accordance with Article 96.1 of the Business Rules:

If JSCC is to pay the net of the amounts set forth in a. and b. below, that amount shall be the total amount of the Early Termination Charge payable by the Defaulting Clearing Participant to JSCC in respect of the Defaulting Clearing Participant's Cleared Contracts. If JSCC is to receive that net amount, the amount equal to the absolute value of that amount shall be the total amount of the Early Termination Charge payable by JSCC to the Defaulting Clearing Participant for the Defaulting Clearing Participant's Cleared Contracts.

- a. The Successful Bid Amount that would otherwise have been settled between JSCC and the Clearing Participant who would have been the successful bidder had the Auction Transactions been executed (The Successful Bid Amount minus the net Mark-to-Market Difference (amount deducting the gross receipts from the gross payments of Mark-to-Market

Difference) related to the relevant Defaulting Clearing Participant's Cleared Contracts which have been paid to JSCC by such Defaulting Clearing Participant, when such Cleared Contracts are Cleared Contracts (Settlement Type)); and

- b. The Fixed Amounts, Floating Amounts and other Cash (excluding Variation Margin and Mark-to-Market Difference) that should have been settled between JSCC and the Defaulting Clearing Participant had the Defaulting Clearing Participant's Cleared Contracts not been subject to the Compulsory Termination, and the Fixed Amounts, the Floating Amounts and other Cash (excluding Variation Margin) settled between JSCC and the Clearing Participants in connection with the Hedge Transactions and the Cross Margining Liquidation Transactions during the period from the Default Determination Date to the Default Auction Date.

Article 7. Hedge Transactions

1 A counterparty to a Hedge Transaction which JSCC may execute in accordance with Article 93 of the Business Rules shall be a Clearing Participant not in Default.

2 Each Hedge Transaction shall be an Eligible IRS Transaction.

3 Upon execution of a Hedge Transaction, if parties agree to the payment of upfront fee, JSCC and the counterparty thereto shall settle the upfront fee so agreed on the next JSCC Business Day following the date of execution of the Hedge Transaction, or if the Hedge Transaction is denominated in a currency other than Japanese yen, on the next Foreign Currency Home Business Day related to relevant currency.

4 In addition to Paragraphs 1, 2 and 3 of this Article, JSCC will determine the counterparty to, and the terms and conditions of, each Hedge Transaction and other matters necessary for the Hedge Transactions on a case-by-case basis taking account of an advice of the IRS Default Management Committee.

5 Where a Hedge Transaction comes into effect between a Clearing Participant and JSCC, and such Hedge Transaction is executed for a Customer, the Hedge Transaction shall be regarded as a Customer's Cleared Contract of Cleared Contract (Collateral Type) executed through the Clearing Brokerage by the Clearing Participant as a Clearing Broker, and the legal relationship between the Clearing Participant and the Customer in respect of the Hedge Transaction shall be regarded as a Clearing Brokerage Contract which is a Cleared Contract (Collateral Type) on the Hedge Transaction that is regarded as a Customer's Cleared Contract which is a Cleared Contract (Collateral Type) in accordance with this Paragraph.

Article 7-2. Cross Margining Liquidation Transaction

1 When JSCC executes a Cross Margining Liquidation Transaction pursuant to the provisions of Article 93-2.2 of the Business Rules, it shall do so with a Clearing Participant other than the Defaulting Clearing Participant as its counterparty.

2 JSCC shall execute the Cross Margining Liquidation Transaction with the party which has become a counterparty to the offsetting sale or offsetting purchase of the Cross Margined JGB Futures Cleared Contract or the Cross Margined Interest Rate Futures Cleared Contracts or which has accepted a brokerage for such counterparty, unless JSCC considers it difficult to do so taking account of the advice of the IRS Default Management Committee, the market conditions of IRS Transactions and other factors.

3 The Cross Margining Liquidation Transaction shall be an Eligible IRS Transaction.

4 Upon execution of the Cross Margining Liquidation Transaction, if parties agree to the payment of upfront fee, JSCC and the counterparty to the Cross Margining Liquidation Transaction shall settle the upfront fee so agreed on the next JSCC Business Day following the date of execution of the Cross Margining Liquidation Transaction. Simultaneously with the execution of the Cross Margining Liquidation Transaction, the upfront fee related to the IRS Transaction to be executed pursuant to the provisions of Article 93-2.4 of the Business Rules shall be similarly settled between JSCC and the relevant Clearing Participant.

5 In addition to the matters prescribed in Paragraphs 1 to 4, any matter that becomes necessary in connection with the execution of the Cross Margining Liquidation Transaction, including a counterparty to, and the method of determination of the trade terms of, Cross Margining Liquidation Transactions, shall be set by JSCC taking account of the advice of IRS Default Management Committee.

6 If a Cross Margining Liquidation Transaction is executed between JSCC and a Clearing Participant for its Customer, such Cross Margining Liquidation Transaction shall be deemed as the Customer's Cleared Contract which is a Cleared Contract (Collateral Type) concluded by the Clearing Brokerage for the Customer and the legal relationship between the Clearing Participant and the Customer in relation to such Cross Margining Liquidation Transaction shall be deemed as the Clearing Brokerage Contract (Collateral Type) related to the Cross Margining Liquidation Transaction deemed as such Customer's Cleared Contract which is a Cleared Contract (Collateral Type) pursuant to the provisions of this Paragraph.

Article 8. Position Transfer of Customer's Cleared Contracts

1 The period to be specified in Subordinate Rules under Article 94.1 of the Business Rules shall be the period from the Default Determination Date to 2:00 p.m. on the second JSCC Business Day following the Default Determination Date.

2 Notwithstanding the provisions of Paragraph 1, where the Customer who desires a Position Transfer and the Clearing Broker have put in place the structures set forth in Article 26-2.3 of the Handling Procedures of Interest Rate Swap Business Rules, JSCC may permit an extension of the period set forth in Paragraph 1, up to six JSCC Business Days after the Default Determination Date taking account of the advice of the IRS Default Management Committee, the status of the IRS Transactions, loss which JSCC has incurred, and other factors. If this applies, the decision on permitting extension shall be made by JSCC on each JSCC Business Day.

3 The Customer to be specified in Subordinate Rules under Article 94.1 of the Business Rules shall be

- Customers who are not in the same Corporate Group as the Clearing Broker, and

- Customers in the same Corporate Group as the Clearing Broker who desire to transfer the claims and obligations related to the Customer's Cleared Contracts and Clearing Brokerage Contracts in the event of determination of a Default with respect to the Clearing Broker and so notified to JSCC prior to the determination of the Default.

4 The terms and conditions to be prescribed in the Subordinate Rules set forth in Article 94.1.(1) and (2) of the Business Rules shall be prescribed by JSCC in a notification or a public notice.

5 The Position Transfer Fee, accrued liabilities, Variation Margin and Mark-to-Market Difference as set forth in Article 94.5 of the Business Rules shall be determined and settled, by each currency of the Defaulting Clearing Participant's Cleared Contracts, as follows:

- (1) The Position Transfer Fee in the amount equal to net Variation Margin by each currency of the Defaulting Clearing Participant's Cleared Contracts deposited with the Defaulting Clearing Participant by the Clearing Customer up until the Default Determination Date with respect to the Customer's Cleared Contracts (the Customers Cleared Contracts set forth in Article 94.5 of the Business Rules; hereinafter the same applies) (the net Mark-to-Market Difference (amount deducting the gross receipts from the gross payments of Mark-to-Market Difference) by each currency of the Defaulting Clearing Participant's Cleared Contracts paid to the Defaulting Clearing Participant by the Clearing Customer up until the Default Determination Date with respect to the Customer's Cleared Contract when such Customer's Cleared Contracts are Cleared Contracts (Settlement Type)) shall be settled, by each currency, among JSCC, the Successor Clearing Broker and the Customer. In this case, if net Variation Margin is positive, then the Position Transfer Fee shall be paid by JSCC to the Successor Clearing Broker and by the Successor Clearing Broker to the Customer, and if negative, it shall be paid by the Customer to the Successor Clearing Broker and by the Successor Clearing Broker to JSCC.
- (2) The accrued liabilities by each currency of the Defaulting Clearing Participant's Cleared Contracts shall be the total of the Fixed Amounts, Floating Amounts and

upfront fee for the relevant currency type that would have been paid and/or received during the period from the Default Determination Date (or the next JSCC Business Day or next Foreign Currency Home Business Day following the Default Determination Date, if the Default Determination Date was the Payment Date and the settlement of the Fixed Amounts, Floating Amounts and upfront fee have been completed on such date) to the Position Transfer Date had the Customer's Cleared Contracts remain effective as of the Default Determination Date.

- (3) The amounts of Variation Margin and Mark-to-Market Difference by each currency of the Defaulting Clearing Participant's Cleared Contracts shall be such amounts that would have been paid and/or received during the period from the Default Determination Date to the Position Transfer Date had the Customer's Cleared Contracts come into effect in accordance with Article 94.6.(2) of the Business Rules as new Cleared Contracts on the Default Determination Date.

6 Notwithstanding the provisions of Article 94.5 of the Business Rules, the Fixed Amount, Floating Amount and upfront fee for the Customer's Cleared Contracts whose Notional Amount and settlement currency are denominated in a currency other than Japanese yen to be settled on the Position Transfer Date shall be settled by the time and date set forth in Article 85-4.3 of the Business Rules.

7 JSCC, the Successor Clearing Broker and the Customer shall settle the net amount, by each currency of the Defaulting Clearing Participant's Cleared Contracts, of the Position Transfer Fee, accrued liabilities, Variation Margin and Mark-to-Market Difference, calculated by each currency of the Defaulting Clearing Participant's Cleared Contracts, excluding those deposited with or paid to JSCC pursuant to the provisions of Article 94.5 of the Business Rules, on the Position Transfer Date pursuant to the provisions of Article 94.6 of the Business Rules.

8 The Early Termination Charge by each currency arising from the Customer's Cleared Contracts set forth in Article 94.6.(6) of the Business Rules shall be equal to the net Variation Margin by each currency deposited with the Defaulting Clearing Participant by

JSCC on or prior to the Default Determination Date in respect of the Customer's Cleared Contracts. The Early Termination Charge shall be paid separately by each currency by the Defaulting Clearing Participant to JSCC if net Variation Margin is positive and by JSCC to the Defaulting Clearing Participant if negative. In this case, Variation Margin to be settled by each currency between JSCC and the Defaulting Clearing Participant with regard to the Customer's Cleared Contracts shall be applied to the satisfaction of the obligations with regard to the Early Termination Charge as a matter of course without the actual return of Variation Margin or the actual payment and/or receipt of the Early Termination Charge.

Article 8-2. Position Transfer of Customer's Cleared Contracts upon Default of Cross Margining Accepting Party

1 The period to be specified in Subordinate Rules under Article 94-2.1 of the Business Rules (referred to in Article 8-3 as "Cross Margining Position Transfer Request Period") shall be the period from the date on which the claims and obligations come into existence pursuant to the provisions of Article 84-5.1 of the Business Rules to 1:00 p.m. on the second JSCC Business Day following such date.

2 Notwithstanding the provisions of Paragraph 1, where the Customer who desires a Position Transfer and the Clearing Broker have put in place the structures set forth in Article 26-2.3 of the Handling Procedures of Interest Rate Swap Business Rules, and the Cross Margining User who desires a JGB Futures Position Transfer (and the JGB Futures Non-Clearing Participant, when the JGB Futures Contracts or the Interest Rate Futures of the Cross Margining User are traded through a brokerage of the JGB Futures Non-Clearing Participant) and the JGB Futures Clearing Participant have put in place the structures set forth in Article 26-3.2 of the Handling Procedures of Interest Rate Swap Business Rules, JSCC may permit an extension of the period set forth in Paragraph 1, up to six JSCC Business Days after the date on which the claims and obligations come into existence pursuant to the provisions of Article 84-5.1 of the Business Rules taking account of the advice of the IRS Default Management Committee, the status of the IRS Transactions, JGB Futures Contracts and Interest Rate Futures Contracts, loss which JSCC may incur, and other factors. If this applies, the decision on permitting extension shall be made by JSCC on each JSCC Business Day.

3 The provisions of Articles 8.3 to 8.8 shall apply mutatis mutandis for Position Transfer of the Customer's Cleared Contracts set forth in the provisions of Article 94-2 of the Business Rules, except that the reference to "Article 94.1 of the Business Rules" in Article 8.3 shall be deemed to have been replaced with "Article 94-2.1 of the Business Rules," the reference to "Article 94.1.(1) and (2) of the Business Rules" in Article 8.4 shall be deemed to have been replaced with "Article 94-2.1.(1) and (2)," the references to "Article 94.5 of the Business Rules" and "Article 94.6.(2) of the Business Rules" in Article 8.5 shall be deemed to have been replaced with "Article 94.5 of the Business Rules to apply according to the provisions of Article 94-2.2 of the Business Rules" and "Article 94.6(2) of the Business Rules to apply according to the provisions of Article 94-2.2 of the Business Rules," respectively, the reference to "Article 94.5 of the Business Rules" in Article 8.6 shall be deemed to have been replaced with "Article 94.5 of the Business Rules to apply according to the provisions of Article 94-2.2 of the Business Rules," the references to "Article 94.6 of the Business Rules" and "Article 94.5 of the Business Rules" in Article 8.7 shall be deemed to have been replaced with "Article 94.6 of the Business Rules to apply according to the provisions of Article 94-2.2 of the Business Rules" and "Article 94.5 of the Business Rules to apply according to Article 94-2.2 of the Business Rules," respectively, and the reference to "Article 94.6.(6) of the Business Rules" in Article 8.8 shall be deemed to have been replaced with the reference to "Article 94.6.(6) of the Business Rules to apply according to the provisions of Article 94-2.2 of the Business Rules."

Article 8-3 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 The period to be specified in Subordinate Rules under Article 94-3.1 of the Business Rules shall be the same period as the Cross Margining Position Transfer Request Period.

2 The terms and conditions to be prescribed under Article 94-3.1.(1) and (2) shall be prescribed by JSCC in a notification or public notice.

3 As to the Cross Margining MtM Difference set forth in Article 94-3.5.(4) of the Business Rules, if the aggregate amount of the Cross Margining MtM Difference paid by

the Cross Margining Accepting Party to JSCC pursuant to the provisions of Article 77-2 of the Business Rules during the period from the date on which the claims and obligations come into existence pursuant to the provisions of Article 84-5.1 of the Business Rules to the date on which the Listed Futures Position Transfer is effected is positive, JSCC shall pay the amount equivalent to such Cross Margining MtM Difference to the Cross Margining Accepting Party and, if negative, the Cross Margining Accepting Party shall pay the amount equivalent to such Cross Margining MtM Difference to JSCC.

Chapter 2 Default Auction (Articles 9 - 14)

Article 9. Default Auction Participation Requirement

1 Clearing Participants other than the Defaulting Clearing Participant(s) and Clearing Participants that are Specified Successor Financial Institutions shall be required to participate in the Default Auction with respect to the Defaulting Clearing Participant's Cleared Contracts in the same currency as the Cleared Contract to which they have been a party during the past 90 day period ending on the Default Determination Date in relation to the relevant Defaulting Clearing Participant (or, the past 30 day period if the Clearing Participant falls on Item (1) below), provided that in respect of Default Auction related to the Defaulting Clearing Participant's Cleared Contracts whose Notional Amount and settlement currency are denominated in Japanese yen, all Clearing Participants other than the Defaulting Clearing Participant(s) and Clearing Participants that are Specified Successor Financial Institutions shall be required to participate in the Default Auction, unless:

- (1) It has requested the renunciation of its IRS Clearing Qualification pursuant to Article 22.1 of the Business Rules; and
- (2) All the Cleared Contracts to which such Clearing Participant is a party have been cancelled.

2 The IRS Clearing Fund deposited with JSCC by a Clearing Participant, who meets the criteria set forth in Paragraph 1 and is exempted from participation in a Default Auction, shall be used as the IRS Clearing Fund set forth in Article 103.2.(2).a. of the Business Rules, and such Clearing Participant shall pay the Third Tier Special Clearing Charge as

the Clearing Participant captured in Article 21.1.(1).a. hereof in the order set forth in Article 21.1.(1).

3 Each Clearing Participant participating in the Default Auction ("Default Auction Participant") shall make a bid at the Default Auction by offering an appropriate and reasonable bid price.

4 If a Clearing Participant outsources participation in the Default Auction as set forth in Article 9.1.(3).b. of the Business Rules, that outsourcing shall constitute the fulfilment of the requirement under Paragraph 1 of this Article.

Article 10. Basic Matters regarding Default Auction

1 JSCC will hold the Default Auction taking account of an advice of the IRS Default Management Committee and in the following procedures:

- (1) Auction Transactions shall be a portfolio, by each currency, of the IRS Transactions equivalent to the Defaulting Clearing Participant's Cleared Contracts (excluding those corresponding to the Customer's Cleared Contracts transferred to Successor Clearing Broker(s) pursuant to the provisions of Article 94 of the Business Rules before a Default Auction) and IRS Transactions with corresponding positions to the Hedge Transactions and the Cross Margining Liquidation Transactions (excluding the JSCC's Transaction Side) whose terms and conditions are identical to those of the Hedge Transactions and the Cross Margining Liquidation Transactions. Notwithstanding the above, JSCC may have multiple portfolios of Auction Transactions taking account of the advice of the IRS Default Management Committee, the size of the Defaulting Clearing Participant's Cleared Contracts, the Hedge Transactions and the Cross Margining Liquidation Transactions, the conditions of Clearing Participants, the Interest Rate Swap market conditions and other factors.
- (2) Each Default Auction Participant shall bid in the Default Auction by bidding; a positive bid price would be an amount payable by JSCC to the Default Auction Participant and the absolute value of a negative bid price would be an amount

payable by the Default Auction Participant to JSCC, if that Default Auction Participant were to win the auction within the auction period prescribed in Article 11.1 hereof.

2 Where the provisions to Paragraph 1.(1) of this Article applies, the method of determining the successful bid price and the Successful Bidder, the method of bidding and other matters connected with the Default Auction shall be determined by JSCC on a case-by-case basis taking account of an advice of the IRS Default Management Committee, regardless of any other provisions of these Default Settlement Rules.

3 Where JSCC decides on the method of determining the successful bid price and the Successful Bidder, the method of bidding and any other matters connected to the Default Auction in accordance with Paragraph 2 of this Article, JSCC will notify the Default Auction Participants to such effect before holding the Default Auction.

Article 11. Holding Default Auction

1 The auction period, conditions of the Default Auction and other necessary matters in holding the Default Auction shall be determined by JSCC on a case-by-case basis taking account of the advice of the IRS Default Management Committee.

2 At the Default Auction, the lowest bid price shall be the successful bid price and the Default Auction Participant having offered such bid price shall be the Successful Bidder.

3 If multiple Default Auction Participants offer the lowest bid price, the Successful Bidder shall be determined by lottery.

4 Before the Default Auction, JSCC will notify the Default Auction Participants of necessary matters related to the Default Auction.

Article 12. Execution of Auction Transactions

1 JSCC shall determine the successful bid price and the Successful Bidder immediately following the close of the Default Auction.

2 Where JSCC fixes the successful bid price and the Successful Bidder of the Default Auction pursuant to Paragraph 1 of this Article, the Auction Transactions put up for the Default Auction shall come into effect between JSCC and the Successful Bidder at such time.

3 When the successful bid price and the Successful Bidder of the Default Auction are fixed pursuant to Paragraph 1 of this Article, JSCC will immediately notify each Clearing Participant required to participate in the relevant Default Auction of the successful bid price and whether such Clearing Participant is the Successful Bidder or not ("Bid Result").

4 Notwithstanding the provisions of Paragraphs 1, 2 and 3 of this Article, if, as a result of determining the successful bid price and the Successful Bidder of the Default Auction, the sum of the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge to be contributed by a Clearing Participant other than the Defaulting Clearing Participant in respect of the relevant Default Auction exceeds the sum of Initial Margin for Proprietary Cleared Contracts, Default Contingent Margin, Third Tier Special Clearing Charge Collateral and Fourth Tier Special Clearing Charge Collateral actually deposited with JSCC by such Clearing Participant, JSCC will fix the successful bid price and the Successful Bidder of the Default Auction in a manner as set forth below or hold another Default Auction or have a consultation:

- (1) JSCC shall notify Clearing Participants other than Defaulting Clearing Participant of the tentative Bid Result immediately after the close of the Default Auction.
- (2) By the time prescribed by JSCC on each occasion on the Default Auction Date, JSCC shall advise the amount of Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge contribution by Clearing Participant that would be contributed had the successful bid price and the Successful Bidder of the Default Auction been fixed and the amount of the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral that need to be posted with JSCC pursuant to the provisions of Article 23.(2) and Article 24.(2).
- (3) If all Clearing Participants posted with JSCC the Third Tier Special Clearing Charge

Collateral and the Fourth Tier Special Clearing Charge Collateral to be posted with JSCC in full by the time prescribed by JSCC on each occasion on the Default Auction Date, JSCC shall immediately determine the successful bid price and the Successful Bidder of the Default Auction. The provisions of Paragraphs 2 and 3 of this Article shall apply *mutatis mutandis* where JSCC fixes the successful bid price and the Successful Bidder of the Default Auction pursuant to this paragraph.

- (4) Failing to post the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral in full as per Item (3) above, the Default Auction fails and another Default Auction shall be held at such time and date prescribed by JSCC on each occasion pursuant to the provisions of Articles 9 through 12.

Article 13. Participation of Clearing Broker in Default Auction

1 A Clearing Broker may participate in a Default Auction on behalf of a Customer. In this case, the Clearing Broker shall clearly separate its own bid and Customer's bid.

2 If, in the case of Paragraph 1 of this Article, the Clearing Broker wins the bid for the Auction Transactions, the Auction Transactions shall be executed between JSCC and the Clearing Broker on behalf of the Customer.

3 In the case of Paragraph 2 of this Article, the Auction Transactions executed between JSCC and the Clearing Broker shall be regarded as Customer's Cleared Contracts of Cleared Contracts (Collateral Type) executed by the Clearing Broker on behalf of the Customer referred to in Paragraph 2 under Clearing Brokerage and the contractual relationship between the Clearing Broker and the Customer under the Auction Transactions shall be regarded as Clearing Brokerage Contracts (Collateral Type) that matches with the Auction Transactions that is regarded as Customer's Cleared Contracts which are Cleared Contract (Collateral Type) under this Paragraph.

Article 14. Settlement of Successful Bid Amount upon Execution of Auction Transactions

1 The cash to be prescribed in the Subordinate Rules under Article 99.2 of the Business Rules shall be the Successful Bid Amount.

2 JSCC and the Clearing Participant shall settle the Successful Bid Amount, Variation Margin and Mark-to-Market Difference set forth in Article 99.2 of the Business Rules arising from the Auction Transactions executed between them pursuant to Article 99 of the Business Rules and Article 12 of these Default Settlement Rules as follows:

- (1) The Successful Bid Amount shall equal to the successful bid price of the Auction Transactions. If the successful bid price is negative, the Successful Bidder shall pay to JSCC the absolute value of the successful bid price as the Successful Bid Amount;
- (2) Variation Margin to be settled at this time shall be Variation Margin to be paid and/or received on the next JSCC Business Day following the Default Auction Date, if the Auction Transactions were executed as new Cleared Contracts (Collateral Type) on such day;
- (3) Mark-to-Market Difference to be settled at this time shall be Mark-to-Market Difference to be paid and/or received on the next JSCC Business Day following the Default Auction Date, if the Auction Transactions were executed as new Cleared Contracts (Settlement Type).
- (4) JSCC and the Clearing Participant shall settle the Successful Bid Amount, Variation Margin and Mark-to-Market Difference referred to in Items (1) to (3) above on a net basis on the next JSCC Business Day following the Default Auction Date.

Chapter 3 Consultation (Articles 15 - 17)

Article 15. Consultation Method

1 Before determining the successful bid price and the Successful Bidder at the Default Auction, JSCC will estimate the Excess Default Loss which JSCC may incur upon the execution of the Auction Transactions for which the Default Auction is held. If the estimate is found to exceed the Resources for Loss Recovery in respect of the currency type of the Defaulting Clearing Participant's Cleared Contracts subject to the relevant

Default Auction, including Re-Allocated IRS Clearing Fund, Re-Allocated First Tier IRS Settlement Guarantee Reserve, Re-Allocated Second Tier IRS Settlement Guarantee Reserve and Re-Allocated Third Tier Special Clearing Charge, if any, JSCC and all Clearing Participants required to participate in the relevant Default Auction will immediately hold another Default Auction or have a consultation in accordance with Article 95-2 of the Business Rules.

2 Each Clearing Participant shall have its Representative of Committee Member¹ at the IRS Management Committee or the Clearing Participant representative, if the Clearing Participant is not a member of IRS Management Committee, or other person representing or acting as its agent participate in the consultation to be held pursuant to Paragraph 1 of this Article and, if applicable, reach an agreement with JSCC in accordance with Article 96 of the Business Rules.

3 Date, time and a method of consultation and other necessary matters pertaining to the consultation required under Article 96 of the Business Rules shall be determined by JSCC on a case-by-case basis.

4 JSCC will notify all Clearing Participants in advance of the matters pertaining to the consultation determined in accordance with Paragraph 3 of this Article.

5 When a consultation is held as set forth in Article 96 of the Business Rules, JSCC will not fix the successful bid price and the Successful Bidder of the Default Auction, notwithstanding Article 12, Paragraph 1.

Article 16. Consultation Period

The period to be prescribed in the Subordinate Rules under Article 97.1 of the Business Rules shall be from the relevant Default Auction Date to the next JSCC Business Day. However, such period may be extended with unanimous consent of JSCC and all Clearing Participants required to participate in the relevant Default Auction.

Article 17. Compulsory Termination of All Cleared Contracts

¹ Defined in Article 6, Paragraph 1 of IRS Management Committee Rules.

1 If the Cleared Contracts set forth in Article 97.1 of the Business Rules terminate in accordance with Article 97.1 of the Business Rules, JSCC and a Clearing Participant shall settle the Early Termination Charge based on the Net Present Value of each of the Cleared Contract as of the date of the termination. The amount of the Early Termination Charge to be settled shall equal to net Variation Margin to be deposited by JSCC with the Clearing Participant in respect of the Cleared Contracts so terminated on or prior to the next JSCC Business Day following the termination date. The Early Termination Charge shall be paid by JSCC to the Clearing Participant if net Variation Margin is positive and by the Clearing Participant to JSCC if negative. Variation Margin held by either JSCC or the Clearing Participant in respect of each Cleared Contract shall be applied to the satisfaction of the obligations related to the Early Termination Charge.

2 In respect of each of the terminated Cleared Contracts as mentioned above, the Early Termination Charge will be settled or Variation Margin deposited for the Clearing Contract will be returned, depending upon the cases, as follows:

- (1) If the Early Termination Charge still needs to be paid after the application of Variation Margin pursuant to Paragraph 1 of this Article, the outstanding Early Termination Charge shall immediately be paid to the other party.
- (2) If there is residual Variation Margin after the application pursuant to Paragraph 1, Variation Margin shall be immediately returned to the other party.

3 In addition to Paragraphs 1 and 2, matters pertaining to the termination of the Cleared Contracts under Article 97 of the Business Rules and the settlement of claims and obligations arising therefrom shall be determined by JSCC on a case-by-case basis.

Chapter 3-2 Customer Profit Direct Receipt upon Default of Clearing Broker (Article 17-2)

Article 17-2. Customer Profit Direct Receipt upon Default

1 The amount to be specified in the Subordinate Rules set forth in Article 99-2.1 of the Business Rules shall be the amount of Post-Default Allocated Profit and Loss related to the Customer to which Paragraph 2 applies.

2 A Customer may exercise, in the manner prescribed by JSCC, its right to request payment as set forth in Article 99-2.1 of the Business Rules directly against JSCC only when the Defaulting Clearing Participant owes to pay the Post-Default Allocated Profit and Loss calculated in accordance with the provisions of the Clearing Brokerage Agreement to the Customer.

Chapter 3-3 Allocation of Initial Margin Deposited by Defaulting Clearing Participant (Articles 17-3 – 17-4)

Article 17-3. Conversion of Unsettled Obligations and Other Amounts into Japanese Yen

The conversion of Variation Margin, the interest on Variation Margin, Mark-to-Market Difference, Adjustment Amount related to Mark-to-Market Difference, the unsettled obligations and payment obligations related to the Defaulting Clearing Participant's Cleared Contracts set forth in Article 101.1.(1).b. to e. and Article 101.1.(2).c. of the Business Rules shall be conducted by using quotes of foreign exchange rate prescribed by JSCC in a public notice.

Article 17-4. Allocation of Initial Margin and the Like by Currency of Defaulting Clearing Participant's Cleared Contracts

1 The amount of Initial Margin to be allocated by each currency of the Defaulting Clearing Participant's Cleared Contracts set forth in Article 101.1.(2).d. of the Business Rules shall be the Initial Margin deposited by the Defaulting Clearing Participant prorated according to the amount equivalent to the Required Initial Margin for each currency type of the relevant Defaulting Clearing Participant's Cleared Contracts as of the JSCC Business Day immediately preceding the Default Auction. For the purpose of these Rules, the amount equivalent to Required Initial Margin shall be the amount equivalent to the Required Initial Margin calculated according to the provisions of Articles 29, 29-2, 32 and 64 of the Business Rules.

2 The provisions of Paragraph 1 shall apply *mutatis mutandis* to an allocation of IRS Clearing Fund or Default Contingent Margin, or excess collateral in other Clearing Business, by each currency of the Defaulting Clearing Participant's Cleared Contracts to be made pursuant to the provisions of Article 101.1.(2).e. and f., whereby the reference to "Initial Margin" in Paragraph 1 shall be replaced with "IRS Clearing Fund or Default Contingent Margin" or "excess collateral in other Clearing Business," as applicable.

Chapter 4 Sharing of Losses by Other Clearing Participants (Articles 18 – 22)

Article 18. Initial Loss-Determination Date

The Initial Loss-Determination Date set forth in Article 102.1 of the Business Rules shall be, depending upon the case, the day as set forth below:

- (1) If the Auction Transactions put up for the Default Auction is executed between JSCC and the Successful Bidder in accordance with Article 12.2:
Default Auction Date.
- (2) If the agreement under Article 96.2 of the Business Rules is reached:
The date of such agreement, or the date designated in such agreement; or
- (3) If all Clearing Contracts terminate pursuant to the provisions of Article 97.1 of the Business Rules:
The next JSCC Business Day following the date of such termination.

Article 18-2. Allocation of Initial Margin and Other Amounts of Defaulting Clearing Participant to Different Currencies

The amount obtained by prorating the resultant value set forth in Article 102-2 of the Business Rules shall be such resultant value prorated according to the amount equivalent to the Required Initial Margin calculated by each currency of the Defaulting Clearing Participant's Cleared Contracts as of the JSCC Business Day immediately preceding the Default Auction Date in respect of the relevant Defaulting Clearing Participant's Cleared Contracts, or the first Default Auction Date, if multiple Default Auctions are held in respect of the relevant Defaulting Clearing Participant's Cleared Contracts.

Article 19. Items to be Excluded from Excess Default Loss

1 The items to be excluded by the Subordinate Rules under Article 103.1 of the Business Rules shall be the loss incurred by JSCC upon the termination of all the Cleared Contracts whose Notional Amount and settlement currency are denominated in a specific currency pursuant to Article 97.1 of the Business Rules which is equivalent to the amount set forth in Article 6.1.(2).a.

2 Other losses to be prescribed in the Subordinate Rules under Article 103.1 of the Business Rules shall be the loss incurred by JSCC upon the termination of Cleared Contracts pursuant to Article 97.1 of the Business Rules. That amount is equivalent to the absolute value of the sum of the net JSCC receivable of Variation Margin, the Fixed Amount, the Floating Amount, Mark-to-Market Difference and other Cash to be settled between JSCC and the Defaulting Clearing Participant in respect of the Defaulting Clearing Participant's Cleared Contracts and the net JSCC payable of Variation Margin, the Fixed Amount, the Floating Amount and other Cash to be settled between JSCC and the Clearing Participants in relation to the Hedge Transactions and the Cross Margining Liquidation Transactions, during the period from the next day of the Default Auction Date to the Initial Loss-Determination Date, when the sum is positive.

3 The amount of the First Tier IRS Settlement Guarantee Reserve allocated by each currency set forth in Article 103.1.(1) of the Business Rules shall be the total amount of the First Tier IRS Settlement Guarantee Reserve remaining after the use of funds as set forth in the Rules, if any, prorated according to the amount equivalent to the Required Initial Margin calculated for the Defaulting Clearing Participant's Cleared Contracts by each currency as of the JSCC Business Day immediately preceding the Default Auction Date, or the first Default Auction Date if multiple Default Auctions are held in respect of the same Defaulting Clearing Participants Cleared Contracts.

4 The amount to be allocated by JSCC set forth in Article 103.1.(2) of the Business Rules shall be, according to the type of below-listed Resources for Loss Recovery, the amount obtained in the following manner:

(1) Second Tier IRS Settlement Guarantee Reserve:

The amount of the Second Tier IRS Settlement Guarantee Reserve prorated according to the sum, by each currency, of the amount equivalent to the Required Initial Margin calculated for Cleared Contracts in the relevant currency of each Clearing Participant other than Defaulting Clearing Participant for the period of past 30 JSCC Business Days ending on the Default Determination Date;

(2) IRS Clearing Fund deposited by Clearing Participants:

The Second Tier Clearing Participant Cap applicable to each Clearing Participant prorated according to the average of the amount equivalent to the Required Initial Margin calculated for Clearing Contracts by each currency for the relevant Clearing Participant for the period of past 30 JSCC Business Days ending on the Default Determination Date.

5 The prices to be prescribed in the Subordinate Rules as significantly deviating from the prevailing market price under Article 103.2.(2).b. (and the same provision applied *mutatis mutandis* under Article 103.3) of the Business Rules shall be any price if the Auction Transactions were to be executed at such price as the successful bid price, Excess Default Loss would exceed the Fixed Resources for Loss Recovery, including the Re-Allocated First Tier IRS Settlement Guarantee Reserve, the Re-Allocated Second Tier IRS Settlement Guarantee Reserve and the Re-Allocated IRS Clearing Fund set forth in Articles 102-2 and 103-2 of the Business Rules.

Article 19-2. Allocation of IRS Settlement Guarantee Reserve and Other Amounts to Different Currency

The provisions of Article 18-2 shall apply *mutatis mutandis* to the allocation of the First Tier IRS Settlement Guarantee Reserve remaining after the application set forth in Article 103-2.1 of the Business Rules and the allocation of the IRS Clearing Fund and the Second Tier IRS Settlement Guarantee Reserve remaining after the application set forth in Article 103-2.2, whereby the reference to “the amount obtained by prorating the resultant value set forth in Article 102-2 of the Business Rules” shall be replaced with “the amount obtained by prorating the First Tier IRS Settlement Guarantee Reserve remaining after application set forth in Article 103-2.1” or “the amount obtained by prorating the IRS Clearing Fund and the Second Tier IRS Settlement Guarantee Reserve remaining after the application set forth in

Article 103-2.2,” as applicable, and the reference to the “resultant value” shall be replaced with “such remaining amount.”

Article 20. Payment Method of Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge

Special Clearing Charge Collateral posted with JSCC shall be applied to the payment of the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge.

Article 21. Amount of Third Tier Special Clearing Charge

1 The amount of the Third Tier Special Clearing Charge set forth in Article 105.2 of the Business Rules shall be determined as follows:

- (1) Where all or a part of the total amount of the Required IRS Clearing Fund of the Clearing Participants required to participate in the Default Auction related to the relevant Excess Default Loss as of the JSCC Business Day immediately preceding the first day of the Default Settlement Period in which the Default Determination Date occurs, or, if any Clearing Participant has contributed the Third Tier Special Clearing Charge in respect of one or more other Default determined during the same Default Settlement Period up to the Default Auction for the relevant Defaulting Clearing Participant, the amount equal to such Required IRS Clearing Fund minus such contribution (referred to as the “Third Tier Special Clearing Charge Cap” in this Paragraph), allocated by each currency of the Defaulting Clearing Participant’s Cleared Contracts pursuant to the provisions of Paragraph 2, is used to recover the remaining Excess Default Loss in respect of the Defaulting Clearing Participant after the recovery pursuant to Article 103 of the Business Rules:

The amounts set forth in a. through d. below in the order set forth below:

- a. The Third Tier Special Clearing Charge to be contributed by a Participant Bearing Third Tier Special Clearing Charge 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 Participant Bearing Third Tier Special Clearing Charge 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 Third Tier Special Clearing Charge contribution shall be determined by prorating the remaining Excess Default Loss according to the Third Tier Special Clearing Charge Cap of each Participant Bearing Third Tier Special Clearing Charge captured in this Item but limited to the Third Tier Special Clearing Charge Cap of each Participant Bearing Third Tier Special Clearing Charge .

b. The Third Tier Special Clearing Charge to be contributed by a Participant Bearing Third Tier Special Clearing Charge 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 is a significant deviation from the prevailing market price, 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 significantly deviate from the prevailing market price, or if a Clearing Participant falls under a. above, such Clearing Participant shall not be subject to this b. (the Clearing Participant subject to this b. shall be referred to as the “Applicable Clearing Participant” in this b.):

The amount of the Third Tier Special Clearing Charge contribution shall be determined by prorating the remaining Excess Default Loss after loss recovery pursuant to a. above according to the Third Tier Special Clearing Charge Cap of

each Applicable Clearing Participant, but limited to the Third Tier Special Clearing Charge Cap of each Applicable Clearing Participant.

c. The Third Tier Special Clearing Charge to be contributed by each Participant Bearing Third Tier Special Clearing Charge not subject to a. or b. above or d. below:

The amount of the Third Tier Special Clearing Charge contribution shall be determined by prorating the remaining Excess Default Loss after loss recovery pursuant to a. and b. above according to the Third Tier Special Clearing Charge Cap of each Participant Bearing Third Tier Special Clearing Charge captured in this Item, but limited to the Third Tier Special Clearing Charge Cap of each Participant Bearing Third Tier Special Clearing Charge captured in this Item.

d. The Third Tier Special Clearing Charge to be contributed by a Participant Bearing Third Tier Special Clearing Charge who made a successful bid on Auction Transactions in the Default Auction in 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 it been subject to the Third Tier Clearing Charge contribution, in respect of the most recent Default Auction for a Default determined during the relevant Default Determination Period held prior to the relevant Default Auction during the relevant Default Determination Period, the Third Tier Special Clearing Charge of that Clearing Participant shall be determined according to a. or b. above, as applicable:

The Third Tier Special Clearing Charge contribution shall be determined by prorating Excess Default Loss after loss recovery pursuant to a. through c. above, but limited to the Third Tier Special Clearing Charge Cap of each Participant Bearing Third Tier Special Clearing Charge captured in this Item.

- (2) Where all or a part of the total amount of the Re-Allocated Third Tier Special Clearing Charge of a Clearing Participant required to participate in the Default Auction related to the relevant Excess Default Loss allocated to the Defaulting Clearing Participant's Cleared Contracts pursuant to the provisions of Article

105-2 of the Business Rules is to be used to recover Excess Default Loss remaining after Item (1) above:

The provisions of Item (1) shall apply *mutatis mutandis*, whereby any reference to “Participant Bearing Third Tier Special Clearing Charge” in Item (1) above shall be replaced with “Participant Bearing Re-Allocated Third Tier Special Clearing Charge,” any reference to “Third Tier Special Clearing Charge” in Item (1) above shall be replaced with “Re-Allocated Third Tier Special Clearing Charge,” “remaining Excess Default Loss after loss recovery” in Item (1) above shall be replaced with “remaining Excess Default Loss” and any reference to “Third Tier Special Clearing Charge Cap” shall be replaced with “amount of the Re-Allocated Third Tier Special Clearing Charge.”

- (3) Where all or a part of the total amount of the Re-Allocated Third Tier Special Clearing Charge of a Clearing Participant not required to participate in the Default Auction related to the relevant Excess Default Loss allocated to the Defaulting Clearing Participant’s Cleared Contracts pursuant to the provisions of Article 105-2 of the Business Rules is to be used to recover Excess Default Loss remaining after Item (1) and (2) above:

In below listed order, the amount specified below:

- a. Re-Allocated Third Tier Special Clearing Charge to be contributed by a Clearing Participant not required to participate and have not participated in the Default Auction:

The remaining Excess Default Loss prorated according to the Re-Allocated Third Tier Special Clearing Charge in respect of each Clearing Participant subject to this Item, but limited to the Re-Allocated Third Tier Special Clearing Charge in respect of the relevant Clearing Participant.

- b. Re-Allocated Third Tier Special Clearing Charge to be contributed by a Clearing Participant not required to participate, but participated in the Default Auction with a price that is a significant deviation from the prevailing market price:

The remaining Excess Default Loss remaining after the application made under a. above prorated according to the Re-Allocated Third Tier Special Clearing Charge in respect of each Clearing Participant subject to this Item, but limited to the Re-Allocated Third Tier Special Clearing Charge in respect of the relevant Clearing Participant.

- c. Re-Allocated Third Tier Special Clearing Charge to be contributed by a Clearing Participant not required to participate in the Default Auction other than those mentioned in a., b. and d.:

The remaining Excess Default Loss remaining after the application made under a. to b. above prorated according to the Re-Allocated Third Tier Special Clearing Charge in respect of each Clearing Participant subject to this Item, but limited to the Re-Allocated Third Tier Special Clearing Charge in respect of the relevant Clearing Participant.

- d. Re-Allocated Third Tier Special Clearing Charge to be contributed 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 a. through c.

2 The amount of the Required IRS Clearing Fund prorated by each currency set forth in Article 105.2 of the Business Rules shall be the Third Tier Clearing Participant Cap for each Clearing Participant prorated according to the average of the amount equivalent to the Required Initial Margin calculated for Cleared Contracts in the relevant currency of each Clearing Participant for the period of past 30 JSCC Business Days ending on the Default Determination Date.

3 A price which significantly deviates from the prevailing market price under Paragraph 1.(1).b. shall be any price which, if the Auction Transactions were to be executed with that as the successful bid, the Excess Default Loss would be more than the Resources for Loss Cover less the Fourth Tier Special Clearing Charge.

4 Participants Bearing Third Tier Special Clearing Charge that are Specified Successor Financial Institutions shall pay the Third Tier Special Clearing Charge contribution as the Participants Bearing Third Tier Special Clearing Charge that fall under Paragraph 1.(1).c. according to the order set forth in Paragraph 1.(1).c.

5 The provisions of Article 103.4 of the Business Rules shall apply *mutatis mutandis* when the provisions of Paragraph 1 applies to the Clearing Participant who outsources the participation in Default Auction pursuant to Article 9.1.(3).b. of the Business Rules.

Article 21-2. Allocation of Third Tier Special Clearing Charge for Defaulting Clearing Participant's Cleared Contracts in Different Currencies

The prorated remaining amount of the Third Tier Special Clearing Charge set forth in Article 105-2 of the Business Rules shall be such remaining amount prorated according to the amount equivalent to the Required Initial Margin for Cleared Contracts in each currency as of the JSCC Business Day immediately preceding the Default Auction Date or the first Default Auction Date, if multiple Default Auctions are to be held, in respect of the relevant Defaulting Clearing Participant's Cleared Contracts in each currency.

Article 21-3. Change of Loss Recovery Resources Proration Method

Only when JSCC deems it appropriate for the purpose of success of the Default Auction taking account of the advice of the IRS Default Management Committee, notwithstanding the provisions of Articles 17-4, 18-2, 19.3, 19.4, 19-2, 21.2 and 21-2, JSCC may change the method of proration of the Defaulting Clearing Participant's Initial Margin, IRS Clearing Fund, Default Contingent Margin and excess collateral in other Clearing Business (hereinafter collectively referred to as "Defaulting Clearing Participant's Collateral") and Resources for Loss Recovery. In this case, any matter that becomes necessary in connection with the treatment of the Defaulting Clearing Participant's Collateral and Resources for Loss Recovery after change or otherwise related to such amount shall be set by JSCC on each occasion.

Article 21-4. Loss to be Excluded from Excess Default Loss to be Recovered by Fourth Tier Special Clearing Charge

The loss to be excluded from the Excess Default Loss remaining after recovery under Article 105 of the Business Rules set forth in Article 106.1 of the Business Rules shall be the loss of JSCC, in the case where Positions of Cross Margined JGB Futures Cleared Contracts or Cross Margined Interest Rate Futures Cleared Contracts are recorded on the Defaulting Clearing Participant's Clearing Participant Account, obtained by multiplying the Excess Default Loss related to the Defaulting Clearing Participant's Cleared Contracts in Japanese yen remaining after recovery under Article 105 of the Business Rules by a fraction, the denominator of which is the net amount of the Outstanding Obligations related to the Defaulting Clearing Participant's Cleared Contracts in Japanese yen set forth in Article 101.1.(1) of the Business Rules and JSCC's obligation to pay the Early Termination Charge related to the Defaulting Clearing Participant's Cleared Contracts, JSCC's payables related to the claims and obligations which come into effect pursuant to the provisions of Article 84-5 of the Business Rules, Variation Margin deposited in respect of the Defaulting Clearing Participant's Cleared Contracts and Funds delivery of which to the Defaulting Clearing Participant have been suspended, and the numerator of which is the Outstanding Obligations of the Defaulting Clearing Participant owed to JSCC in connection with the liquidation related to the claims and obligations which come into effect pursuant to the provisions of Article 84-5.

Article 22. Amount of Fourth Tier Special Clearing Charge

The Fourth Tier Special Clearing Charge contribution under Article 106.2 of the Business Rules shall be calculated by type of currency of the Defaulting Clearing Participant's Cleared Contracts and determined, depending upon the category into which Participant Bearing Fourth Tier Special Clearing Charge (as such term defined in Article 106.1) falls, as follows:

- (1) Participant Bearing Fourth Tier Special Clearing Charge other than the Participant who is determined to be in Default after the Default Determination Date in respect of the relevant Defaulting Clearing Participant:

The remaining Excess Default Loss after the recovery pursuant to Articles 103 and 105 of the Business Rules 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 other than the Participant who is determined to be in Default after said Default Determination Date; and

- (2) Participant Bearing Fourth Tier Special Clearing Charge determined to be in Default after the Default Determination Date in respect of the relevant Defaulting Clearing Participant:

The amount of such Participant's Fourth Tier Special Clearing Charge Collateral on deposit with JSCC.

Chapter 5 Special Clearing Charge Collateral (Articles 23 – 27)

Article 23. Third Tier Special Clearing Charge Collateral Requirement

Upon determination of a Clearing Participant's Default by JSCC, a non-Defaulting Clearing Participant is required to post with JSCC the amount set forth in the following Items as the Third Tier Special Clearing Charge Collateral by the date and time set forth in the relevant Items, provided that the total amount to be posted with JSCC by a Clearing Participant as the Third Tier Special Clearing Charge Collateral in respect of the same Default Settlement Period shall not exceed the amount equal to the Required IRS Clearing Fund of the Clearing Participant as of the JSCC Business Day immediately preceding the first day of the Default Settlement Period:

(1) Where

- The sum of net Cash Settlement Amount receivable by JSCC from the Defaulting Clearing Participant arising from the Defaulting Clearing Participant's Cleared Contracts calculated on each JSCC Business Day from the Default Determination Date (or the next JSCC Business Day following the Default Determination Date in case the settlement under the Defaulting Clearing Participant's Cleared Contract(s) that are due on the Default Determination Date have been completed as of the Default Determination Date) and net Cash Settlement Amount payable by JSCC to the Clearing Participants arising from the Hedge Transactions deemed to be the Cleared Contracts pursuant to

Article 93.2 of the Business Rules and the Cross Margining Liquidation Transactions deemed to be the Cleared Contracts pursuant to Article 93-2.3 of the Business Rules calculated on each JSCC Business Day from the Default Determination Date (or the next JSCC Business Day following the Default Determination Date in case the settlement under the Defaulting Clearing Participant's Cleared Contract(s) that are due on the Default Determination Date have been completed as of the Default Determination Date) is more than the total amount of the Fixed Resources for Loss Recovery applicable to the type of currency of the Defaulting Clearing Participant's Cleared Contracts plus the Re-Allocated First Tier IRS Settlement Guarantee Reserve, the Re-Allocated Second Tier IRS Settlement Guarantee Reserve and the IRS Clearing Fund allocated pursuant to Article 103-2 of the Business Rules, if any,

and

- the Third Tier Special Clearing Charge (or if one or more other Default is determined during the same Default Settlement Period, the estimated Third Tier Special Clearing Charge obtained pursuant to the provisions of Article 21 using the sum of net Cash Settlement Amount payable by JSCC mentioned above as Excess Default Loss which would have arisen had Default Auction been held at such time) to be contributed by such Clearing Participant is more than the sum of Initial Margin in respect of the Proprietary Cleared Contracts and Default Contingent Margin of such Clearing Participant on deposit with JSCC at such time (or if the Third Tier Special Clearing Charge becomes necessary during the same Default Settlement Period, the amount remaining after deducting the amount of the Third Tier Special Clearing Charge which becomes necessary to recover Excess Default Loss related to the Defaulting Clearing Participant's Cleared Contracts in currencies other than the currency of the relevant Defaulting Clearing Participant's Cleared Contracts less the amount of the Third Tier Special Clearing Charge Collateral deposited with JSCC pursuant to Item (3)):
- a. Date and time: 11:00 a.m. on the next JSCC Business Day following the day on

which such excess occurs

- b. Amount to make the Third Tier Special Clearing Charge Collateral on deposit with JSCC equal to the amount of such excess on the day on which such excess occurs
- (2) In the case of Article 12.4, where the Clearing Participant's Third Tier Special Clearing Charge contribution that JSCC notified to the Clearing Participant pursuant to Article 12.4.(2) is more than the sum of Initial Margin in respect of the Proprietary Cleared Contracts, Default Contingent Margin and the Third Tier Special Clearing Charge Collateral of such Clearing Participant on deposit with JSCC at such time (or if the Third Tier Special Clearing Charge becomes necessary during the same Default Settlement Period, the amount remaining after deducting the amount of the Third Tier Special Clearing Charge which becomes necessary to recover Excess Default Loss related to the Defaulting Clearing Participant's Cleared Contracts in currencies other than the currency of the relevant Defaulting Clearing Participant's Cleared Contracts less the amount of the Third Tier Special Clearing Charge Collateral deposited with JSCC pursuant to Item (3)):
- a. Date and time: Time prescribed by JSCC at each occasion on the Default Auction Date on which such notification was made
 - b. Amount: Amount of such excess
- (3) In the case of Article 12.4, where the Clearing Participant's Third Tier Special Clearing Charge contribution that JSCC notified to the Clearing Participant pursuant to Article 12.4.(2) is more than the amount of posted Third Tier Special Clearing Charge Collateral:
- a. Date and time: 11:00 a.m. on the next JSCC Business Day following the Default Auction Date on which such notification was made
 - b. Amount: Amount of such excess

Article 24. Fourth Tier Special Clearing Charge Collateral Requirement

Upon JSCC's determination of a Clearing Participant's Default, a non-Defaulting Clearing Participant is required to post with JSCC the amount set forth in the following Items as the Fourth Tier Special Clearing Charge Collateral by the date and time set forth below:

- (1) Where the net Cash Settlement Amount as described in Article 23.(1) is more than the total amount of the Fixed Resources for Loss Recovery plus the Re-Allocated First Tier IRS Settlement Guarantee Reserve, the Re-Allocated Second Tier IRS Settlement Guarantee Reserve, the IRS Clearing Fund and the Re-Allocated Third Tier Special Clearing Charge if any of these are allocated pursuant to Article 103-2 or Article 105-2 of the Business Rules, and if the sum of the estimate of the Clearing Participant's Third Tier Special Clearing Charge contribution and the Fourth Tier Special Clearing Charge contribution obtained pursuant to the provisions of Articles 21 and 22 using said net Cash Settlement Amount as Excess Default Loss that would have arisen had the Default Auction been held at such time is more than the sum of Initial Margin in respect of the Proprietary Cleared Contracts, Default Contingent Margin, Third Tier Special Clearing Charge Collateral and Fourth Tier Special Clearing Charge Collateral of such Clearing Participant on deposit with JSCC at such time (or if the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge become necessary during the same Default Settlement Period, the amount remaining after deducting the amount of the Third Tier Special Clearing Charge and the amount of the Fourth Tier Special Clearing Charge which become necessary to recover Excess Default Loss related to the Defaulting Clearing Participant's Cleared Contracts in currencies other than the currency of the relevant Defaulting Clearing Participant's Cleared Contracts less the amount of the Third Tier Special Clearing Charge Collateral deposited with JSCC pursuant to Article 23.(3) and the amount of the Fourth Tier Special Clearing Charge Collateral deposited with JSCC pursuant to Item (3)):

- a. Date and time: 11:00 a.m. of the next JSCC Business Day following the day on which such excess occurs

- b. Amount to bring the Fourth Tier Special Clearing Charge Collateral posted by that Clearing Participant up to the amount of such excess on the day on which such excess occurs

- (2) In the case of Article 12.4, where the total amount of a Clearing Participant's Third Tier Special Clearing Charge contribution and Fourth Tier Special Clearing Charge contribution that JSCC notified to Clearing Participants pursuant to Article 12.4.(2) is more than the sum of Initial Margin arising from Proprietary Cleared Contracts, Default Contingent Margin, the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral of that Clearing Participant on deposit with JSCC at such time (or if the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge becomes necessary during the same Default Settlement Period, the amount remaining after deducting the amount of the Third Tier Special Clearing Charge and the amount of the Fourth Tier Special Clearing Charge which becomes necessary to recover Excess Default Loss related to the Defaulting Clearing Participant's Cleared Contracts in currencies other than the currency of the relevant Defaulting Clearing Participant's Cleared Contracts less the amount of the Third Tier Special Clearing Charge Collateral deposited with JSCC pursuant to Article 23.(3) and the amount of the Fourth Tier Special Clearing Charge Collateral deposited with JSCC pursuant to Item (3)):

- a. Date and time: The time prescribed by JSCC at each occasion on the Default Auction Date on which such notification was made

 - b. Amount: Amount of such excess

- (3) In the case of Article 12.4, where the total amount of each Clearing Participant's Third Tier Special Clearing Charge contribution and Fourth Tier Special Clearing Charge contribution that JSCC notified to Clearing Participants pursuant to Article 12.4.(2) is more than the sum of such Clearing Participant's Third Tier Special Clearing Charge Collateral and Fourth Tier Special Clearing Charge Collateral on deposit with JSCC at such time:

- a. Date and time: 11:00 a.m. on the next JSCC Business Day following the Default Auction Date on which such notification was made
- b. Amount: Amount of such excess

Article 25. Application and Return of Special Clearing Charge Collateral

On the next JSCC Business Day following the Initial Loss-Determination Date for a Defaulting Clearing Participant, JSCC will apply the Third Tier Special Clearing Charge Collateral posted with JSCC by a Clearing Participant in accordance with Article 23 to the satisfaction of the obligation related to the Third Tier Special Clearing Charge contribution to be made by that Clearing Participant and also apply the Fourth Tier Special Clearing Charge Collateral posted with JSCC by a Clearing Participant in accordance with Article 24 to the satisfaction of the obligation related to the Fourth Tier Special Clearing Charge contribution to be made by that Clearing Participant. The remaining amount, if any, after said application shall be returned to the Clearing Participant promptly after the application.

Article 26. Required Amount of Default Contingent Margin

The required amount of Default Contingent Margin of each Clearing Participant set forth in Article 108 of the Business Rules shall be an amount calculated pursuant to the following Items on each JSCC Business Day during a Default Settlement Period, except for the last day of the Default Settlement Period, on which the required amount of Default Contingent Margin shall be zero.

- (1) On each JSCC Business Day during a Default Settlement Period, an amount equivalent to the Required IRS Clearing Fund ("Required IRS Clearing Fund Equivalent") shall be calculated according to the Appendix to the Rules on Required IRS Clearing Fund, "Calculation of Required IRS Clearing Fund".
- (2) The amount obtained pursuant to a. or b. below, depending upon the categories, shall be used as a basis for calculation of required amount of Default Contingent Margin ("Default Contingent Margin Calculation Base"):

- a. On the first day of the Default Settlement Period: If the Required IRS Clearing Fund Equivalent calculated for such day is less than the Required IRS Clearing Fund on the immediately preceding JSCC Business Day, the Required IRS Clearing Fund on the immediately preceding JSCC Business Day shall be the Default Contingent Margin Calculation Base for that day, and if the Required IRS Clearing Fund Equivalent calculated on such day is equal to or above the Required IRS Clearing Fund on the immediately preceding JSCC Business Day, the Required IRS Clearing Fund Equivalent calculated on that day shall be the Default Contingent Margin Calculation Base for that day.
 - b. On the second and subsequent days during the Default Settlement Period: If the Required IRS Clearing Fund Equivalent calculated on such day is less than the Default Contingent Margin Calculation Base on the immediately preceding JSCC Business Day, the Default Contingent Margin Calculation Base on the immediately preceding JSCC Business Day shall be the Default Contingent Margin Calculation Base for that day, and if the Required IRS Clearing Fund Equivalent calculated on such day is equal to or above the Default Contingent Margin Calculation Base on the immediately preceding JSCC Business Day, the Required IRS Clearing Fund Equivalent calculated on such day shall be the Default Contingent Margin Calculation Base for that day. For this purpose, the Default Contingent Margin Calculation Base shall be obtained continuously from the next JSCC Business Day following the first day of the Default Settlement Period.
- (3) The required amount of Default Contingent Margin shall be the Default Contingent Margin Calculation Base on that day less the Required IRS Clearing Fund on the JSCC Business Day immediately preceding the first day of the Default Settlement Period.

2 The notification to Clearing Participants of the required amount of Default Contingent Margin under Article 108.4 of the Business Rules shall be made via the IRS Clearing System set forth in Article 2.(2) of the Handling Procedures of Interest Rate Swap Business Rules.

Article 27. Payment of Special Clearing Charge upon Determination of Final Loss

1 In accordance with Article 110.1 of the Business Rules, JSCC may use the IRS Clearing Fund deposited with JSCC by Clearing Participants or request payment of the amount needed from Clearing Participants.

2 Notwithstanding Article 20, a Clearing Participant shall, if it is due to pay the Special Clearing Charge to JSCC pursuant to Article 110.1 of the Business Rules, pay the Special Clearing Charge to JSCC in the method specified by JSCC on a case-by-case basis.

**Chapter 5-2 Adjustment of Resources for Loss Recovery between Currencies
after Determination of Final Loss (Article 27-2)**

Article 27-2. Adjustment of Resources for Loss Recovery between Currencies after
Determination of Final Loss

The adjustment of Resources for Loss Recovery set forth in Article 110-2 of the Business Rules shall be made according to the order and in the manner prescribed below, but such amount shall not exceed the amount of Resources for Loss Recovery actually applied or used:

- (1) Distribution to the Clearing Participants who contributed the Fourth Tier Special Clearing Charge;
- (2) Distribution to the Clearing Participants who contributed the Re-Allocated Third Tier Special Clearing Charge;
- (3) Distribution to the Clearing Participants who contributed the Third Tier Special Clearing Charge;
- (4) Reserve for the Second Tier IRS Settlement Guarantee Reserve or relevant IRS Clearing Fund which are used as the Re-Allocated Second Tier IRS Settlement Guarantee Reserve or the Re-Allocated IRS Clearing Funds, as applicable;
- (5) Reserve for the Second Tier IRS Settlement Guarantee Reserve or relevant IRS Clearing Fund other than above Item (4);

- (6) Reserve for the First Tier IRS Settlement Guarantee Reserve which are used as the Re-Allocated First Tier IRS Settlement Guarantee Reserve; and
- (7) Reserve for the First Tier IRS Settlement Guarantee Reserve other than above Item (6).

2 The Defaulting Clearing Participant's Collateral and the Resources for Loss Recovery listed below shall be used for the distribution or reserve set forth in Paragraph 1 in the order specified below:

- (1) Initial Margin and the like of the Defaulting Clearing Participant remaining after the determination of final loss, which is the resultant value of the netting and application of collateral conducted on the date of determination of the final loss set forth in Article 101.1.(2) of the Business Rules that is negative;
- (2) Re-Allocated First Tier IRS Settlement Guarantee Reserve remaining after the application made pursuant to Article 103.1.(1)-2 and Article 110.1.(1) of the Business Rules;
- (3) Re-Allocated Second Tier IRS Settlement Guarantee Reserve and IRS Clearing Fund deposited by Clearing Participants other than the Defaulting Clearing Participant remaining after the application made pursuant to Article 103.1.(3) and (4) and Article 110.1.(2) of the Business Rules;
- (4) Re-Allocated Third Tier Special Clearing Charge remaining after the application made pursuant to Article 21.1.(2) and (3) of these Rules and Article 110.1.(3) of the Business Rules.

3 The adjustment of the Resources for Loss Recovery under Paragraphs 1 and 2 shall be made according to the case specified in below Items in the manner specified below:

- (1) Where the Defaulting Clearing Participant's Collateral and the Resources for Loss Recovery specified below are sufficient to cover the full amount of the distribution or reserve in below a. to d.:
Distribution or reserve in the below-listed amount using the Defaulting Clearing Participant's Collateral and the Resources for Loss Recovery specified below:

- a. Defaulting Clearing Participant's Collateral and Resources for Loss Recovery in Paragraph 2.(1): Total amount set forth in Paragraph 1;
- b. Defaulting Clearing Participant's Collateral and Resources for Loss Recovery in Paragraph 2.(1) and (2): Total amount set forth in Paragraph 1.(1) to (5);
- c. Defaulting Clearing Participant's Collateral and Resources for Loss Recovery in Paragraph 2.(1) to (3): Total amount set forth in Paragraph 1.(1) to (3); and
- d. Defaulting Clearing Participant's Collateral and Resources for Loss Recovery in Paragraph 2: Amount set forth in Paragraph 1.(1)

(2) Other than above Item (1):

According to the order of the Defaulting Clearing Participant's Collateral and Resources for Loss Recovery specified below, distribution or reserve in the amount specified below:

- a. Defaulting Clearing Participant's Collateral and Resources for Loss Recovery in Paragraph 2.(1): Full amount of such Defaulting Clearing Participant's Collateral and Resources for Loss Recovery;
- b. Defaulting Clearing Participant's Collateral and Resources for Loss Recovery in Paragraph 2.(2): The total amount set forth in Paragraph 1.(1) to (5) less the amount distributed or reserved under a. above, but limited to the full amount of such Defaulting Clearing Participant's Collateral and Resources for Loss Recovery;
- c. Defaulting Clearing Participant's Collateral and Resources for Loss Recovery in Paragraph 2.(3): The total amount set forth in Paragraph 1.(1) to (3) less the amount distributed or reserved under a. and b. above, but limited to the full amount of such Defaulting Clearing Participant's Collateral and Resources for Loss Recovery;
- d. Defaulting Clearing Participant's Collateral and Resources for Loss Recovery in Paragraph 2.(4): The amount set forth in Paragraph 1.(1) less the amount distributed or reserved under a. through c. above, but limited to the full amount of such Defaulting Clearing Participant's Collateral and Resources for Loss Recovery.

4 In addition to the matters prescribed in Paragraphs 1 to 3, any matter that becomes necessary in connection with the adjustment of Resources for Loss Recovery shall be set by JSCC in a notification.

Chapter 6 Distribution of Collected Amount (Articles 28 - 32)

Article 28. Clearing Participants Entitled to Collected Amount

The Clearing Participants to be specified in the Subordinate Rules under Article 111.1 of the Business Rules shall be the following Clearing Participants:

- (1) The Clearing Participants who have contributed their shares of Fourth Tier Special Clearing Charge to JSCC;
- (2) JGB Futures Clearing Participants who have paid Cross Margining Special Clearing Charge set forth in Article 79-2 of the Securities and Similar Contracts Business Rules;
- (3) The Clearing Participants who have contributed their shares of Third Tier Special Clearing Charge to JSCC;
- (4) The Clearing Participants whose Required IRS Clearing Fund has been used pursuant to Article 103 or Article 110 of the Business Rules to recover Excess Default Loss or any other loss arising from Default of one or more Clearing Participants, or who paid to JSCC the amount equal to Required IRS Clearing Fund otherwise used pursuant to Article 27.1; and
- (5) The Clearing Participants who have incurred loss from reestablishment of the Cleared Contracts terminated pursuant to Article 97.1 of the Business Rules.

Article 29. Distribution Procedures

1 When Article 111.1 of the Business Rules applies, JSCC will distribute to the Clearing Participants or the JGB Futures Clearing Participants in the below listed order the amount set forth in Article 111.1 remaining after payment of the expenses required for

collection in proportion of such Clearing Participants' contribution, up to the amount described in each Item below:

- (1) To persons listed below: The amount specified below:
 - a. Clearing Participants in Article 28.(1):
Amount equivalent to the Fourth Tier Special Clearing Charge paid to JSCC;
 - b. JGB Futures Clearing Participants in Article 28.(2):
Amount equivalent to the Cross Margining Special Clearing Charge paid to JSCC;
- (2) To the Clearing Participants set forth in Article 28.(3): Up to the Third Tier Special Clearing Charge contribution paid to JSCC;
- (3) To the Clearing Participants set forth in Article 28.(4): Up to the IRS Clearing Fund used to recover Excess Default Loss or other loss incurred by JSCC as a result of Default of any Clearing Participant; and
- (4) To the Clearing Participant set forth in Article 28.(5): Up to the amount of the loss set forth therein.

2 If JSCC deems it necessary to make sure proper distribution is made under Paragraph 1, JSCC may request that the Clearing Participant receiving distribution under Paragraph 1.(4) above submit an evidence of loss incurrence entitling it to the distribution under Paragraph 1.(4) and other necessary information.

3 JSCC will determine the amount of loss described in Paragraph 1.(4) taking account of an advice of the IRS Default Management Committee and by reference to the evidence and information submitted by the Clearing Participants under Paragraph 2 above.

4 JSCC will make distribution to the Clearing Participants promptly after the determination of the amount pursuant to Paragraph 1.

Article 30. When No Participant is Entitled to Distribution

If no Clearing Participant is entitled to the distribution under Article 111.1 of the Business Rules, JSCC will apply the remaining amount after payment of expenses for the collection as follows:

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

Supplementary Provision

These Rules shall come into force as of 9 October 2012.

Supplementary Provision

These amendments shall come into force as of 24 February 2014.

Supplementary Provision

These amendments shall come into force as of 1 April 2014.

Supplementary Provision

These amendments shall come into force as of 24 September 2015.

Supplementary Provision

These amendments shall come into force as of 19 December 2016.

Supplementary Provision

These amendments shall come into force as of 30 January 2017.

Supplementary Provision

These amendments shall come into force as of 18 June 2018.

Supplementary Provision

These amendments shall come into force as of 1 September 2019.

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.