

IRS Default Management Committee Rules

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## **IRS Default Management Committee Rules**

### Article 1. Purpose

The purpose of these IRS Default Management Committee Rules (these “DMC Rules”) is to set forth the authority, organization, manner of appointment of a committee member and other matters necessary for administration of the IRS Default Management Committee pursuant to the Interest Rate Swap Clearing Business Rules (“Business Rules”) established by Japan Securities Clearing Corporation (“JSCC”).

### Article 2. Definitions

Unless otherwise set forth in these DMC Rules, the terms used in these DMC Rules shall have the meanings used in the Business Rules.

### Article 3. Establishment of IRS Default Management Committee

- 1 JSCC shall establish the IRS Default Management Committee (“Committee”) as a permanent advisory committee of the board of directors of JSCC.
- 2 The Committee consists of not more than five (5) committee members appointed pursuant to the provisions of Articles 6 to 6-4 hereof.

### Article 4. Matters for Consultation

- 1 The matters prescribed under Article 92.1 of the Business Rules shall be as follows:
  - (1) Matters concerning execution, trade conditions of and counterparties to Hedge Transactions;
  - (2) Matters concerning holding, conditions, date and time and administration of Default Auction; or
  - (3) Matters concerning execution, trade terms of and trade counterparty to offsetting sale (as set forth in Article 45-2.2 of the Securities and Similar Contracts Business Rules) or offsetting purchase (as set forth in Article 45-2.2 of the Securities and Similar Contracts Business Rules) of Cross Margined JGB Futures Cleared

Contracts;

- (4) Matters concerning execution, trade terms of and trade counterparty to Cross Margining Liquidation Transactions;
- (5) Any other matters concerning settlement and other treatment of Defaulting Clearing Participant's Cleared Contracts and Cross Margined JGB Futures Cleared Contracts in respect of which JSCC separately seeks advice.

2 JSCC shall take account of the Committee's or committee member's advice, if any, as to the matters listed in Paragraph 1.

#### Article 5. List of Clearing Participants

1 JSCC shall prepare a list in which all Clearing Participants are listed in random order ("Clearing Participant List").

For the purpose of Clearing Participant in Article 5 and Article 6, a Clearing Participant who is a Specified Successor Financial Institution shall be excluded from the definition of Clearing Participant.

2 When the IRS Clearing Qualification of a Clearing Participant is renounced (including the renunciation due to JSCC's measures to revoke the IRS Clearing Qualification; the same shall apply in Article 6) or JSCC declares the Default of a Clearing Participant, JSCC shall remove such Clearing Participant from the Clearing Participant List at the time of such renunciation or declaration of the Default.

3 When a Clearing Participant is appointed as a committee member pursuant to Articles 6 to 6-4, JSCC shall remove such Clearing Participant from the Clearing Participant List.

4 When the number of Clearing Participants remaining on the Clearing Participant List becomes less than five (5), JSCC shall prepare a new Clearing Participant List in the method prescribed in Paragraph 1, in which event, the existing Clearing Participant List shall lose its effect at the time when the Clearing Participant listed at the end of such Clearing Participant List is appointed as a committee member.

Article 6. Appointment of Committee Member

- 1 JSCC shall designate five (5) Clearing Participants in accordance with the order on the Clearing Participant List as committee members, provided that if the number of Clearing Participants on the then current Clearing Participant List is less than five(5), all Clearing Participants remaining on the list shall be nominated as committee members, and then the number of the Clearing Participants to fill the shortage shall be nominated from the Clearing Participant List newly prepared pursuant to the provisions of Article 5.4 according to the order on such new Clearing Participant List.
  
- 2 If the IRS Clearing Qualification of a committee member is renounced or JSCC declares the Default of a committee member after its appointment pursuant to Paragraph 1, JSCC shall cancel the appointment of the relevant committee member simultaneously with such renunciation or declaration. In this case, JSCC shall appoint a replacement committee member in accordance with the order on the Clearing Participant List.
  
- 3 If JSCC deems that a committee member or a Representative of Committee Member (defined below) is unable to perform his, her or its duties as a committee member in light of its status of trading in IRS Transactions or other factors, or otherwise there is any unavoidable reason, JSCC may cancel the appointment of the committee member. In this case, JSCC shall appoint a replacement committee member in accordance with the order on the Clearing Participant List.
  
- 4 If the number of committee members appointed pursuant to Paragraph 1 of this Article is less than five (5), and after such appointment, JSCC grants an IRS Clearing Qualification to a new Clearing Participant, such new Clearing Participant shall be appointed, at the time of such grant of Clearing Qualification, as a committee member to fill a vacancy (if multiple Clearing Participants are simultaneously granted Clearing Qualifications, then such new Clearing Participants selected in random order shall be appointed as committee members so that total number of the committee members is five (5)).

- 5 The term of office of committee member shall, unless otherwise designated by JSCC upon its appointment, expire on the day on which one year has elapsed since the date of appointment.

Article 6-2. Special Rules on Committee Members Advising on Default Settlement of Cross Margining User

- 1 Notwithstanding the provisions of Article 6, where the Clearing Broker acting as an agent for a Customer who is the Cross Margining User is appointed as a committee member, such committee member shall be removed from a committee member when the Committee gives an advice on the Cross Margined JGB Futures Cleared Contracts on its Customer's book. In such case, JSCC shall appoint a replacement committee member according to the order of the Clearing Participant List.
- 2 When the replacement committee member is appointed pursuant to the provisions of Paragraph 1, JSCC shall place the Clearing Participant removed from a committee member pursuant to the provisions of Paragraph 1 on the top of the then current Clearing Participant List.

Article 6-3. Special Rules on Committee Members Advising on Default Settlement of Foreign Currency Cleared Contracts

- 1 JSCC shall appoint, in advance, two (2) committee members which have been the parties to Foreign Currency Cleared Contracts during the period of past 30 days ending on the date of their appointment as the committee members to give advice specifically on the matters listed in Article 4.1.(1), (2) and (5) in connection with the Defaulting Clearing Participant's Cleared Contracts which are Foreign Currency Cleared Contracts ("Defaulting Clearing Participant's Foreign Currency Cleared Contracts") when Default of a Clearing Participant which is a party to Foreign Currency Cleared Contracts is declared (such committee members are referred to as "Foreign Currency Members").
- 2 The Foreign Currency Members set forth in Paragraph 1 shall be appointed according to the order of the Clearing Participant List effective at the time of the appointment of the then current five committee members pursuant to the provisions of Article 6.1.

- 3 When JSCC considers it difficult for a Foreign Currency Member appointed pursuant to the provisions of Paragraph 1 or its Representative to perform their duty in light of its business execution structure related to IRS Transactions in currencies other than Japanese yen or for other reason, JSCC may withdraw the appointment of such committee member as the Foreign Currency Member. In such case, JSCC will appoint the replacement Foreign Currency Member pursuant to the provisions of Paragraphs 1 and 2.
- 4 The provisions of the second sentence of Paragraph 3 shall apply *mutatis mutandis* when the Foreign Currency Member is removed from committee member pursuant to the provisions of Article 6.2 after its appointment as the Foreign Currency Member under Paragraph 1.

Article 6-4. Nomination of Candidate for Foreign Currency Member

- 1 At the time of the appointment of committee members or at the time of the appointment of the replacement Foreign Currency Member pursuant to Article 6-3.3 (including the case where such provisions apply *mutatis mutandis* according to Article 6-3.4), if JSCC is unable to appoint two Foreign Currency Members, it shall nominate candidates for the Foreign Currency Members according to the order on the Clearing Participant List, including the one newly created pursuant to Article 5.4, so that the total number of the Foreign Currency Members will be two. In such case, if JSCC is unable to nominate required number of candidates for the Foreign Currency Members from the then existing Clearing Participant List, JSCC shall create a new Clearing Participant List pursuant to the provisions of Article 5.1 and nominate such candidate so that the total number of the Foreign Currency Members will be two.
- 2 A candidate for a Foreign Currency Member shall be nominated from Clearing Participants listed on the Clearing Participant List, including the one newly created pursuant to the second sentence of Paragraph 1 or Article 5.4, which have been a party to a Foreign Currency Cleared Contract during the period of past 30 days ending on the date of nomination.

- 3 When a Clearing Participant is nominated as a candidate for a Foreign Currency Member and JSCC declares a Default of a Clearing Participant which is a party to a Foreign Currency Cleared Contract, JSCC shall appoint such candidate as a committee member as well as the Foreign Currency Member. In such case, the Clearing Participant newly appointed as a committee member shall be deleted from the Clearing Participant List.
- 4 When candidates for Foreign Currency Members are appointed as committee members pursuant to the provisions of Paragraph 3, the existing committee members in the same number as the number of newly appointed committee members determined in the order from the existing committee member which was listed at the last among existing five committee members in the Clearing Participant List effective at the time of their appointment shall be removed from the committee members. The Clearing Participants cease to be the committee members shall be listed at the top of the then current Clearing Participant List.
- 5 The term of office and other matters which will become necessary for the Clearing Participants appointed as committee members pursuant to the provisions of Paragraphs 1 to 4 shall be set by JSCC at each occasion.

Article 7. Notification of Representative of Committee Member

- 1 A committee member shall designate at least one of the Officers or employees of itself or of other Legal Entity included in the same Corporate Group as that committee member who has expertise in trading practice of IRS Transactions as a representative or an agent actually performing duties of the committee member, including such duties as Foreign Currency Member as applicable, ("Representative of Committee Member"), and submit a written notification to JSCC of such designation in the form prescribed by JSCC immediately after the appointment of that committee member.
- 2 When a committee member changes its Representative of Committee Member, it shall submit a written notification to JSCC of a new Representative of Committee Member in the form prescribed by JSCC.

Article 8. Obligations of Committee Members

- 1 Committee members shall, individually or as a Committee, give advice to JSCC on the matters prescribed in Article 4.1 hereof.
  
- 2 A committee member or a Representative of Committee Member (including a person who once was a committee member or Representative of Committee Member) shall keep confidentiality of secrets that such person becomes aware in the performance of its duties and may not use for any purposes other than performance of duties as committee member, or divulge to a third party (including the Legal Entity to which he or she belongs), any such secrets, except for any of the below listed events or otherwise there is any justifiable grounds to do so. The “secrets” referred to above shall mean confidential facts that are not otherwise available to general public and may have significant commercial impact:
  - (1) When JSCC’s prior written consent is obtained;
  
  - (2) When its disclosure or provision is required by an order or request from a courts, competent authority or any other public institution, or a financial instruments exchange or any other self-regulatory organization, or by laws and regulations;
  
  - (3) When it is necessary to perform the duties of committee member; or
  
  - (4) When such information is disclosed or provided to an attorney, certified public accountant, tax accountant or other professional, or other Legal Entity in the same Corporate Group as the committee member, to the extent necessary for the performance of its obligations under these DMC Rules or for the protection or exercise of its rights, provided that a disclosure or provision to any person who is not under the statutory confidentiality obligation shall be subject to an imposition on such person of the same confidentiality obligation as set forth in this Paragraph.
  
- 3 When JSCC receives the notification of a Representative of Committee Member pursuant to Article 7, it shall make the Representative of Committee Member submit a



written pledge prescribed by JSCC to the effect that it shall comply with the obligations set forth in Paragraph 2.

Article 9. Conduct of Default Settlement Drill

- 1 JSCC and the Committee shall jointly conduct a drill for re-establishment of JSCC's position which would become necessary upon the termination of Defaulting Clearing Participant's Cleared Contracts in the event of JSCC's declaration of the Default of a Clearing Participant (including the measures to be taken to avoid JSCC's loss which may arise until the completion of such re-establishment) and for an appropriate and smooth administration of other matters arising along with the declaration of the Default ( "Default Settlement Drill").
  
- 2 All Clearing Participants other than Clearing Participants that are Specified Successor Financial Institutions shall participate in a Default Settlement Drill and follow the procedures drawn by JSCC and the Committee on each occasion. In this case, the Clearing Participant who outsources the participation in the default settlement procedures as set forth in Article 9.1.(3).b. of the Business Rules shall have that outsourcee participate in the Default Settlement Drill.

Article 10. Delegation

Matters necessary for administration of the Committee other than those prescribed in these DMC Rules shall be prescribed by the Committee on a case-by-case basis.

Supplementary Provisions

- 1 These DMC Rules shall be enforced from 9 October 2012 (hereinafter referred to as "Date of Enforcement").
  
- 2 JSCC may take necessary procedures and perform any other acts and things in relation to the appointment of committee members and notification of representative of committee member even before the Date of Enforcement pursuant to the applicable provisions of these DMC Rules.

- 3 JSCC shall appoint the top five (5) Clearing Participants on the Clearing Participant List (if less than five (5) Clearing Participants are listed on the Clearing Participant List, all the Clearing Participants appearing on the list) promptly after the Date of Enforcement as committee members and establish the Committee.

#### Supplementary Provisions

- 1 These amendments shall come into force from 9 April 2013 (hereinafter referred to as the "Date of Enforcement").
- 2 Notwithstanding the provisions of Articles 5 and 6, as amended, JSCC will prepare new Clearing Participant List as of the Date of Enforcement as prescribed by JSCC and appoint committee members in accordance with the order of such new Clearing Participant List. The term of office of the committee members so appointed shall be as determined by JSCC.
- 3 Notwithstanding the provisions of Article 5, as amended, with respect to the Clearing Participant List to be prepared in accordance with the immediately preceding paragraph, the event where the Clearing Participant listed the fifth (5th) from the bottom of such list is appointed as a committee member shall be the event that falls under provisions of Article 5, Paragraph 4, as amended.

#### Supplementary Provisions

Amendment to these DMC Rules shall be enforced from 1 April 2014.

#### Supplementary Provisions

- 1 These amendments shall come into force from 24 September 2015 (hereinafter referred to as the "Date of Enforcement").
- 2 Notwithstanding the provisions of Articles 6-3 and 6-4, as amended, JSCC will appoint Foreign Currency Members and nominate candidates for Foreign Currency Members in a manner prescribed by JSCC in light of the status of clearing of IRS Transactions in currencies other than Japanese yen.