

CDS Clearing Business Rules

Original Document Title: CDS 清算業務に関する業務方法書

Note

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

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Chapter 1. General Provisions (Articles 1-7)

Article 1. Purpose

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

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

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

Article 2. Definitions

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

- (1) “Ad Hoc Compression” means a process to have Cleared Contract(s) terminated before its scheduled Termination Date through a method prescribed by JSCC in accordance with the provisions of Article 53-2;

(1)-2 “Transfer” means any of the following:

- a. a process to have a legal relationship with the same economic effect as the Proprietary Cleared Contract between JSCC and the Transferring Clearing Participant come into effect between a Receiving Customer and the Clearing Broker for the Receiving Customer and to pay or receive cash and settle claims and obligations in association therewith pursuant to the provisions of Article 58-3.3.(2) or Article 58-3.3.(3);
- b. a process to have a Clearing Brokerage Contract between a Transferring Customer and the Clearing Broker for the Transferring Customer terminate and to have the claims and obligations thereunder cease to have future effect and to pay or receive cash and settle claims and obligations in association therewith pursuant to the provisions of Article 58-5.3.(2) or Article 58-5.3.(4);
- c. a process to have a Clearing Brokerage Contract between a Transferring Customer and the Clearing Broker for the Transferring Customer terminate and to have the claims and obligations thereunder cease to have future effect, and simultaneously to have a legal relationship with the same terms and conditions as the said Clearing Brokerage Contract come into effect between the Receiving Customer and the Clearing Broker for the Receiving Customer, and to pay or receive cash and settle claims and obligations in association therewith, pursuant to the provisions of Article 58-5.3.(3) or Article 58-5.3.(5);
- d. a process to move Proprietary Cleared Contract(s) booked on a Sub-Account to another Sub-Account under the same Proprietary Account pursuant to the provisions of Article 59-2.3; and
- e. a process to move Customer’s Cleared Contract(s) booked on a Sub-Account to another Sub-Account under the same Customer Account pursuant to the provisions of Article 59-3.3.

(1)-3 “Receiving Customer” means a Customer who becomes a party to the legal relationship arising as a result of Transfer;

(1)-4 “Receiving Clearing Participant” means a Clearing Participant who becomes a party to the legal relationship arising as a result of Transfer;

(1)-5 “Transferring Customer” means the Customer who is a party to the Clearing

Brokerage Contract subject to Transfer;

(1)-6 “Transferring Clearing Participant” means the Clearing Participant who is a party to the Proprietary Cleared Contract subject to Transfer;

(1)-7 “Customer Initial Margin” means any cash or securities deposited with a Clearing Broker by a Customer and kept by the Clearing Broker with the consent of the Customer for the purpose of securing the obligations of such Customer set forth in Article 61.1.(2);

(1)-8 “Customer Account” means a customer account set forth in Article 59.2;

(1)-9 “Index CDS Transaction” means a CDS Transaction designating any of the iTraxx Japan (any type, series and version) as the index applied to it (hereinafter referred to as “Index”) by an agreement between the parties to such CDS Transaction and referring to multiple Reference Entities listed on the table of Reference Entities corresponding to such Index published by the person designated by JSCC in a public notice;

(2) “Parent Company” means, with respect to a Legal Entity,

- a. a parent company of such Legal Entity (meaning any other Legal Entity controlling the financial and business policy of such Legal Entity);
- b. a Legal Entity controlling the financial and business policy of a parent company of such Legal Entity, if any;
- c. a subsidiary of a parent company of a Legal Entity (meaning any other Legal Entity whose financial and business policy is controlled by a parent company of such Legal Entity);
- d. a subsidiary of a Legal Entity described in c. above; and
- e. other persons deemed by JSCC as those equivalent to the foregoing;

(3) “Parental Guarantee” means a guarantee extended by the Parent Company of a Clearing Participant to secure the obligation of such Clearing Participant owing to

JSCC by submitting a letter of guarantee in the form prescribed by JSCC¹, including other documents deemed by JSCC to be equivalent to such letter of guarantee, to JSCC;

- (4) “Corporate Group” means a corporate group set forth in Article 5.1.(2) of the Financial Instruments and Exchange Act;
- (5) “Early Termination” means a termination of a Cleared Contract before the Termination Date for any reason other than Compression or Ad Hoc Compression;
- (6) “Early Termination Charge” means cash received and paid between the parties to a Cleared Contract in the case of its Early Termination;
- (7) “Subordinate Rules” means the rules set by JSCC that are subordinate to these Business Rules, in whatever name and including the amendments thereto, if any;
- (8) “Business Holiday” means a holiday set forth in Article 5.1 or an extraordinary holiday set forth in Article 5.2;
- (9) “Funds” means cash, securities, claims and any other property;
- (10) “Credit Event Announcement” means a public announcement made by JSCC pursuant to Article 81.5 when JSCC judges that an event constituting a Credit Event has occurred in connection with a Cleared Contract and a Reference Entity (or the Obligation thereof);
- (10)-2 “Settlement Amount” means, in respect of a Cleared Contract, the amount of cash to be paid or received between JSCC and a Clearing Participant (excluding those to be paid or received as CDS Clearing Fund, Initial Margin, Variation Margin and interests on Variation Margin) or, if such cash are paid and received on a net basis pursuant to the provisions of Article 80.2 hereof among such cash, the amount so netted;
- (11) “Failure of Settlement” means a default or anticipated default in the performance of obligations arising as a result of a Cleared Contract or any other obligations under the Rules in whole or in part by the due date thereof;

¹ cf. Handling Procedures of CDS Clearing Business Rules, Article 3.

- (12) “Uniform International Standard” means the uniform international standard set forth in Article 1.4 of “Order Providing for the Categories, etc. Prescribed in Article 26.2 of the Banking Act” (Ordinance of the General Administrative Agency of the Cabinet and the Ministry of Finance No. 39, 2000), Article 1.4 of “Order Providing for the Categories, etc. Prescribed in Article 26.2 of the Banking Act Applied *mutatis mutandis* pursuant to Article 17 of the Long Term Credit Bank Act” (Ordinance of the General Administrative Agency of the Cabinet and the Ministry of Finance No. 40, 2000), or Article 3.5 of “Order Providing for the Categories, etc. Prescribed in Article 26.2 of the Banking Act Applied *mutatis mutandis* pursuant to Article 89.1 of Shinkin Bank Act” (Ordinance of the General Administrative Agency of the Cabinet and the Ministry of Finance No. 41, 2000);²
- (13) “Japanese Standard” means the standard in Japan set forth in Article 1.5 of “Order Providing for the Categories, etc. Prescribed in Article 26.2 of the Banking Act”, Article 1.5 of “Order Providing for the Categories, etc. Prescribed in Article 26.2 of the Banking Act Applied *mutatis mutandis* pursuant to Article 17 of the Long Term Credit Bank Act”, or Article 3.4 of “Order Providing for the Categories, etc. Prescribed in Article 26.2 of the Banking Act Applied *mutatis mutandis* pursuant to Article 89.1 of the Shinkin Bank Act”;
- (13)-2 “Compression” means a process to have Cleared Contract(s) terminated before its scheduled Termination Date and have new Cleared Contract(s) simultaneously established through a method prescribed by JSCC in accordance with the provisions of Article 53;
- (14) “Clearing” means execution of a CDS Transaction between JSCC as a principal and each Clearing Participant who is a party to an Eligible CDS Transaction pursuant to Article 49;
- (15) “Substituted Initial Margin” means an Initial Margin deposited with JSCC by a Clearing Broker from its own funds for and on behalf of itself and its Customers in respect of a Customer’s Cleared Contract for which they act as the Clearing Broker;
- (16) “Net Capital” means,

² Uniform International Standard is a standard prescribed in Japan under Basel III.

for a Financial Instrument Business Operator, the amount of unfixed equity capital set forth in Article 1.4.(2) of the Cabinet Office Ordinance Concerning Financial Instruments Business Operator etc. (Cabinet Office Ordinance No. 52 of 2007);

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

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

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

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

(17)-2 “Proprietary Account” means a proprietary transaction account set forth in Article 59.2;

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

(18)-2 “Position Transfer” means a process to have new claims and obligations related to a Proprietary Cleared Contract accrue between JSCC and the Clearing Participant and to pay or receive cash and settle claims and obligations in association therewith, in accordance with the provisions of Article 58-3.3.(1) or a process to have new claims and obligations related to Customer's Cleared Contracts and Clearing Brokerage Contracts accrue among JSCC, a Clearing Participant and a Customer, and to pay or receive cash and settle claims and obligations in association therewith, in accordance with the provisions of Article 58-5.3.(1) or Article 95.4;

(18)-3 “Successor Clearing Broker” means a Clearing Broker that has assumed the claims

and obligations arising as a result of Position Transfer, and, in the case of Position Transfer of Customer's Cleared Contracts under Article 58-4.1.(1), has executed the Clearing Brokerage Contract with the Customer who is a party to the relevant Position Transfer;

(18)-4 "Position Transfer Requested Cleared Contract" means the Cleared Contract subject to Position Transfer;

(18)-5 "Carrying Clearing Broker" means the Clearing Participant who is a party to the Cleared Contract subject to Position Transfer;

(19) "Margin" collectively means Initial Margin, Customer Initial Margin and Variation Margin;

(20) "Net Present Value" means the value calculated by discounting the future cash-flows arising from a CDS Transaction to the present value according to the method prescribed by JSCC³;

(20)-2 "Single Name CDS Transaction" means a CDS Transaction which refers to one Reference Entity;

(20)-3 "Pre-Definition Update Cleared Contracts" means all Cleared Contracts existing as of September 22, 2014 and Cleared Contracts which will come into effect by JSCC Clearing Eligible CDS Transactions designated by JSCC in a public notice on or after September 26, 2014;

(21) "Customer" means a person who has entered into a Clearing Brokerage Agreement with a Clearing Participant and submitted a letter of undertaking as prescribed in Article 42.2 to JSCC, and who satisfies the requirements prescribed by JSCC⁴;

(22) "Clearing Brokerage Contract" means a legal relationship between a Clearing Broker and a Customer coming into effect as a result of each Clearing Brokerage in accordance with the Clearing Brokerage Agreement, which has the same economic effect as the Customer's Cleared Contract coming into effect as a result of the said brokerage;

³ cf. Handling Procedures of CDS Clearing Business Rules, Article 4.

⁴ cf. Handling Procedures of CDS Clearing Business Rules, Article 5.

- (23) “Clearing Participant” means a person who holds a CDS Clearing Qualification;
- (24) “Clearing Participant Agreement” means an agreement between JSCC and a Clearing Participant in the form prescribed by JSCC⁵, which incorporates the terms of the Rules;
- (25) “Clearing Brokerage Agreement” means an agreement entered into between a Customer and a Clearing Broker in the form prescribed by JSCC⁶, including any agreements entered into between the Clearing Broker and a Customer in accordance with such agreement, under which the Clearing Broker may accept the Customer’s CDS Transactions for Clearing;
- (26) “Clearing Brokerage Original Transaction” means the original CDS Transaction that existed between a Customer and a Clearing Participant or another Customer for which the Customer requested Clearing via their Clearing Broker;
- (26)-2 “Clearing Brokerage Account” means a clearing brokerage account as set forth in Article 60.1;
- (27) “Cleared Contract” means a CDS Transaction between JSCC and a Clearing Participant that comes into effect as a result of Clearing;
- (28) “Customer’s Cleared Contract” means a Cleared Contract on the Customer’s book executed by a Clearing Broker according to a request of a Customer for Clearing Brokerage;
- (29) “Proprietary Cleared Contract” means a Cleared Contract executed by a Clearing Participant on its proprietary book;
- (30) “Notional Amount” means the amount equivalent to the “Original Notional Amount” under STS, or for an Eligible CDS Transactions not subject to STS, the amount agreed between the parties to the Eligible CDS Transaction as the amount equivalent to Floating Rate Payer Calculation Amount and Fixed Rate Payer Calculation Amount;
- (31) “First Tier CDS Settlement Guarantee Reserve” means an amount set aside by JSCC

⁵ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 6.

⁶ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 7.

in accordance with the Subordinate Rules for the purpose of covering losses arising from the Default of a Clearing Participant;

(32) “Second Tier CDS Settlement Guarantee Reserve” means an amount set aside by JSCC in accordance with the Subordinate Rules for the purpose of covering losses arising from the Default of a Clearing Participant;

(32)-2 “Second Tier Clearing Participant Cap” means the Required CDS Clearing Fund contribution of each Clearing Participant as of the JSCC Business Day immediately preceding the start date of the Default Settlement Period in which the Default Determination Date in respect of the Defaulting Clearing Participant set forth in Article 104 falls.

(33) “Third Tier Special Clearing Charge” means cash paid by a Clearing Participant to JSCC in accordance with the provisions of Article 105;

(34) “Third Tier Special Clearing Charge Collateral” means cash deposited by a Clearing Participant with JSCC for the purpose described in Article 107.1.(1);

(35) “Fourth Tier Special Clearing Charge” means cash paid by a Clearing Participant to JSCC in accordance with the provisions of Article 106;

(36) “Fourth Tier Special Clearing Charge Collateral” means cash deposited by a Clearing Participant with JSCC for the purpose described in Article 107.1.(2);

(37) “Eligible Securities Collateral” means the securities specified by JSCC⁷ that may be deposited as the CDS Clearing Fund, Initial Margin, Customer Initial Margin or Default Contingent Margin;

(38) “Other Clearing Business” means the Clearing Service and businesses incidental thereto carried out by JSCC excluding the CDS Clearing Businesses;

(39) “Eligible CDS Transaction” means a CDS Transaction between Clearing Participants of an Issue designated by JSCC⁸, which satisfies the requirements prescribed by JSCC⁹;

⁷ cf. Handling Procedures of CDS Clearing Business Rules, Article 8.

⁸ cf. Handling Procedures of CDS Clearing Business Rules, Article 9.

⁹ cf. Handling Procedures of CDS Clearing Business Rules, Article 10.

- (40) "JSCC Business Day" means any day other than a Business Holiday;
- (41) "Initial Margin" means cash or Eligible Securities Collateral deposited with JSCC by a Clearing Participant or a Customer for the purpose of securing the obligations prescribed in Article 61.1.(1);
- (42) "Special Clearing Charge" collectively refers to the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge;
- (43) "Special Clearing Charge Collateral" collectively refers to the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral;
- (44) "Default Contingent Margin" means cash or Eligible Securities Collateral to be deposited with JSCC by a Clearing Participant for the purpose of securing the obligations set forth in Article 107-2.1 hereof.
- (45) "Default Settlement Period" means a period of 30 days from the Default Determination Date with respect to the Default of such Clearing Participant, except in the case where another Default is determined during an existing Default Settlement Period, in which case, the Default Settlement Period shall be extended to the day 30 days after the Default Determination Date for such subsequently occurred Default;
- (46) "Default Auction" means the Default Auction prescribed in Article 96;
- (47) "Defaulting Clearing Participant" means a Clearing Participant determined by JSCC to be in Default, and when Defaulting Clearing Participant is acting for a Customer, it may also be referred to as "Defaulting Clearing Broker";
- (48) "Default" means any of the following events and actions:
- a. Become, or be likely to become, unable to pay (as prescribed in Article 2.11 of the Bankruptcy Act (Act No. 75 of 2004)) or to become insolvent with excess liabilities (as prescribed in Article 16.1 of the Bankruptcy Act);
 - b. Become subject to suspension of transactions by a clearinghouse or an Electronic Monetary Claim Recording Institution defined in Article 2.2 of the Electronically

Recorded Monetary Claims Act (Act No. 102 of 2007);

- c. Suspend its payment (meaning suspension of payment by which insolvency is presumed pursuant to the provisions of Article 15.2 of the Bankruptcy Act) or occurrence of similar events;
- d. Dissolve itself (excluding dissolution due to a merger);
- e. Petition for commencement of bankruptcy proceedings, commencement of rehabilitation proceedings, commencement of reorganisation proceedings or commencement of special liquidation or acknowledgment of foreign insolvency proceedings is filed (including the petitions equivalent thereto under any foreign laws and regulations); or
- f. An event which causes commencement of bankruptcy proceedings, rehabilitation proceedings, reorganisation proceedings or special liquidation (including that equivalent thereto under any foreign laws and regulations) has occurred;

(49) "Default Determination Date" means the day on which JSCC determines the Default of a Clearing Participant;

(50) (Deleted);

(51) "Non-resident" means a non-resident prescribed in Article 6.1.(6) of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949);

(52) "Floating Payment" means Funds to be paid or received between the parties to a Cleared Contract at the Settlement or any other Funds prescribed by JSCC¹⁰;

(53) "Variation Margin" shall collectively refer to the cash listed in the following items:

- a. The cash received and paid between a Clearing Participant and JSCC on each JSCC Business Day for the purpose of securing the obligations listed in Article 61.1.(3);
- b. The cash received and paid between a Clearing Broker and JSCC on each JSCC

¹⁰ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 11.

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

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

(53)-2 “Cash Settlement Amount” means Variation Margin, interest on Variation Margin, Fixed Amount and Floating Payment;

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

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

(56) “Issue” means a class of CDS Transaction identified by the terms of CDS Transaction prescribed by JSCC¹¹;

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

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

(58)-2 “Successful Bid Amount” means the amount payable by JSCC to a Successful Bidder when the Auction Transaction comes into effect. If such amount is a negative value, the Successful Bidder shall pay the amount equal to the absolute value of such amount to JSCC when the Auction Transaction comes into effect;

¹¹ cf. Handling Procedures of CDS Clearing Business Rules, Article 12.

- (59) “CDS Clearing Fund” means cash or Eligible Securities Collateral deposited with JSCC by each Clearing Participant for the purpose set forth in Article 17.1;
- (60) “CDS Clearing Qualification” means a permission to become a JSCC’s counterparty in a Cleared Contract in accordance with the Rules which may be granted or cancelled by JSCC;
- (61) “CDS Transaction” means a credit default swap transaction which is an OTC derivatives transaction prescribed in Article 2.22.(6) (a) of the Financial Instruments and Exchange Act;
- (62) “ISDA” means International Swaps and Derivatives Association, Inc.;
- (63) “Documents Setting Forth Handling of ISDA-Based Documents” mean the documents prescribed by JSCC by notification to Clearing Participants or public notice in connection with the matters necessary to apply the ISDA Master Agreement and the ISDA Credit Derivatives Definitions to a Cleared Contract and any other matters in accordance with the provisions of the Subordinate Rules¹²;
- (64) “ISDA Master Agreement” means the 2002 ISDA Master Agreement published by ISDA in 2003 (including any changes, amendments or supplements in writing published by ISDA and specified by JSCC) which shall be applied to Cleared Contracts;
- (65) “ISDA Credit Derivatives Definitions” means the 2014 ISDA Credit Derivatives Definitions published by ISDA in 2014 (including any changes, amendments or supplements in writing published by ISDA and specified by JSCC¹³);
- (65)-2 “ISDA Credit Derivatives Definitions (2003 Version)” means the 2003 ISDA Credit Derivatives Definitions published by ISDA in 2003 (including any changes, amendments or supplements in writing published by ISDA and specified by JSCC¹⁴);
- (66) “STS” means the iTraxx Asia/Pacific Untranchd Standard Terms Supplement published in September 2014 (including any changes, amendments or supplements

¹² *cf.* Handling Procedures of CDS Clearing Business Rules, Article 13.

¹³ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 13-2.

¹⁴ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 14.

published in writing and specified by JSCC¹⁵);

(67) “STS (2010 Version)” means the iTraxx Japan Untranchd Standard Terms Supplement published in November 2010 (including any changes, amendments or supplements published in writing and specified by JSCC¹⁶); and

(68) “2003 Version Cleared Contract” means the Cleared Contract subject to ISDA Credit Derivatives Definitions (2003 Version) pursuant to the provisions of Article 51.1.

2 The terms listed in the “Term” column in the table attached hereto as the Annex 1 among the terms used in the Rules, shall refer to the corresponding terms listed in the “ISDA Credit Derivatives Definitions” column as defined in the relevant section of the “ISDA Credit Derivatives Definitions” stated in the “Section” column.

3 Notwithstanding the provisions of Paragraph 2 above, with respect to 2003 Version Cleared Contracts, the terms listed in the “Term” column in the table attached hereto as the Annex 2 among the terms used in the Rules, shall refer to the corresponding terms listed in the “ISDA Credit Derivatives Definitions (2003 Version)” column as defined in the relevant section of the “ISDA Credit Derivatives Definitions (2003 Version)” stated in the “Section” column.

4 If there is a discrepancy between the meaning of any term used in the Financial Instruments and Exchange Act or the ISDA Credit Derivatives Definitions (or the ISDA Credit Derivatives Definitions (2003 Version) for 2003 Version Cleared Contracts) and the Rules, the meaning in the Rules shall prevail.

Article 3. Clearing Service

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

Article 4. Subject Transaction for Clearing

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

¹⁵ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 15.

¹⁶ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 15.

Article 5. Business Holiday

1 The Business Holidays of JSCC shall be as follows:

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

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

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

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

Article 6. Notification to Other Clearing Participant or Other Customer

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

2 JSCC shall, by the method prescribed by JSCC¹⁷, take measures to let the Clearing Participant or the Customer know the existence of the declaration described in Paragraph 1 and the details thereof.

Article 7. Eligible Securities Collateral

1 The prices used to determine the value of Eligible Securities Collateral shall be specified by JSCC¹⁸; provided that JSCC may change such prices temporarily when JSCC deems it necessary for proper valuation, including without limitation in the event of a significant change to market price.

¹⁷ cf. Handling Procedures of CDS Clearing Business Rules, Article 16.

¹⁸ cf. Handling Procedures of CDS Clearing Business Rules, Article 17.1.

2 JSCC shall determine how the Eligible Securities Collateral shall be deposited and other necessary matters in respect of Eligible Securities Collateral¹⁹.

Chapter 2 Clearing Participant

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

Article 8. Application for and Approval of CDS Clearing Qualification

1 A person listed below may apply to JSCC for a CDS Clearing Qualification according to the procedures as prescribed by JSCC²⁰:

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

(2) Registered Financial Institution.

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

3 Notwithstanding the provisions of Paragraph 1, a Specified Successor Financial Institution (as defined in Article 126-34.3.(5) of the Deposit Insurance Act (Act No. 34 of 1971)) may apply to JSCC for a CDS Clearing Qualification according to the procedures as prescribed by JSCC²¹. If such application is made, JSCC may grant CDS Clearing Qualification to such Applicant.

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

5 An Applicant intending to rely on a Parental Guarantee (referred to as “Guaranteed Applicant” in this Section) shall submit the documentation relating to such Parental

¹⁹ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 17.2.

²⁰ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 18.1.

²¹ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 18.1.

Guarantee in the form prescribed by JSCC²² or, at JSCC's discretion, a substitute form that is substantially the same, when filing the application for CDS Clearing Qualification in accordance with Paragraph 1.

Article 9. Requirements for CDS Clearing Qualification

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

(1) Management Structure

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

(2) Financial Basis

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

a. Financial Instruments Business Operator:

- (a) Applicant's Net Capital is not less than JPY 100 billion (100,000,000,000);
- (b) Applicant's Capital-to-Risk Ratio is more than 200% or 250% if JSCC deems it necessary in light of its creditworthiness;
- (c) If Applicant is a Special Financial Instrument Business Operator that has filed the notification prescribed in Article 57-5.2 of the Financial Instruments and Exchange Act ("Special Operator"), Applicant's Consolidated Capital-to-Risk Ratio is more than 200% or 250% if JSCC deems it necessary in light of Applicant's creditworthiness; and
- (d) Applicant is sufficiently creditworthy.

b. Registered Financial Institution:

- (a) Applicant's Net Capital is not less than JPY 100 billion (100,000,000,000);
- (b) If Applicant is a Registered Financial Institution subject to Uniform International Standards, it must fulfill the conditions specified in (i) to (iii)

²² cf. Handling Procedures of CDS Clearing Business Rules, Article 3.

below or, in the case of a foreign bank, equivalent conditions under the applicable laws and regulations in its country of incorporation:

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

(3) Business Capability:

- a. Applicant has capability to settle Cleared Contracts, manage risk, comply with laws and regulations, sanctions imposed by administrative agencies in accordance with laws and regulations, and the Rules; and
- b. The aggregate value of the outstanding CDS Transactions of the Applicant or the Corporate Group to which the Applicant belongs is not less than JPY 500 billion, or the amount obtained by multiplying JPY 500 billion by the number of Clearing Participants belonging to the Applicant's Corporate Group, when there is one or more Clearing Participant(s) in the same Corporate Group and the value of the outstanding CDS Transactions is calculated at the Corporate Group level, and Applicant maintains a business capability which enables it to participate in the procedures for the liquidation of a defaulting Clearing Participant's Cleared

Contracts. In the preceding sentence, the aggregate value of the outstanding CDS Transactions refers to the sum total of the Notional Amount of the outstanding CDS Transactions.

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

(1) Financial Instruments Business Operator

- a. The Net Capital of the Guaranteed Applicant is not less than JPY 50 billion (50,000,000,000), and the Net Capital of its Parent Company providing Guaranteed Applicant's Parental Guarantee, or its equivalent if the Parent Company providing Parental Guarantee is neither a Financial Instruments Business Operator nor a Registered Financial Institution, is not less than JPY 100 billion (100,000,000,000);

If the Parent Company providing the Guaranteed Applicant's Parental Guarantee also provides Parental Guarantee to one or more other Clearing Participants, the Parent Company's Net Capital must not be less than the amount obtained by multiplying JPY 100 billion (100,000,000,000) by the number of the Clearing Participants guaranteed by that Parent Company or, if the Parent Company itself is a Clearing Participant, the number of the guaranteed Clearing Participants plus one;

- b. The Guaranteed Applicant satisfies the requirements of Paragraph 1.(2). a.(b) and (c), or, its Parent Company satisfies the requirements of Paragraph 1.(2).a.(b) and (c) or Paragraph 1.(2).b.(b) to (d), or equivalent requirements, if the Parent Company providing Parental Guarantee is neither a Financial Instruments Business Operator nor a Registered Financial Institution. For this purpose, the satisfaction of the requirements related to creditworthiness shall be judged by reference to the creditworthiness of the Parent Company; and
- c. The Parent Company is sufficiently creditworthy.

(2) Registered Financial Institution.

- a. Applicant's Net Capital is not less than JPY 50 billion (50,000,000,000), and the Net Capital of its Parent Company providing Parental Guarantee, or its equivalent if the Parent Company providing Parental Guarantee is neither a Financial

Instruments Business Operator nor a Registered Financial Institution, is not less than JPY 100 billion (100,000,000,000)

If a Parent Company provides Parental Guarantee to one or more other Clearing Participants, the Parent Company's Net Capital must not be less than the amount obtained by multiplying JPY 100 billion (100,000,000,000) by the number of the Clearing Participants guaranteed by that Parent Company or, if the Parent Company itself is a Clearing Participant, the number of the guaranteed Clearing Participants plus one;

- b. The Guaranteed Applicant satisfies the requirements of Paragraph 1.(2). b.(b), or, its Parent Company satisfies the requirements of Paragraph 1.(2).a.(b) and (c) or Paragraph 1.(2).b.(b) to (d), or equivalent requirements, if the Parent Company providing Parental Guarantee is neither a Financial Instruments Business Operator nor a Registered Financial Institution. For this purpose, the satisfaction of the requirements related to creditworthiness shall be judged by reference to the creditworthiness of the Parent Company; and
- c. The Parent Company is sufficiently creditworthy.

Article 10. Completion of CDS Clearing Qualification Application

- 1 When JSCC has approved an Applicant's CDS Clearing Qualification pursuant to the provisions of Article 8.2, the Applicant shall deposit CDS Clearing Funds and follow the other procedures as required by JSCC²³ on or before the JSCC Business Day immediately preceding the Qualification Date.
- 2 When the Applicant described in Paragraph 1 fails to complete the procedures prescribed in Paragraph 1 on or before the JSCC Business Day immediately preceding the Qualification Date, its application for CDS Clearing Qualification shall be deemed to have been withdrawn.
- 3 When JSCC grants CDS Clearing Qualification pursuant to Article 8.3, the Applicant shall deposit CDS Clearing Funds and follow other procedures as required by JSCC²⁴ on or before the date designated by JSCC.

Article 11. Execution of Clearing Participant Agreement

The Applicant prescribed in Article 10.1 or 10.3 shall enter into the Clearing Participant

²³ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 19.1.

²⁴ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 19.3.

Agreement with JSCC in the form prescribed by JSCC²⁵ on or before the Qualification Date.

Article 12. Date of CDS Clearing Qualification

- 1 When an Applicant has completed the procedures set forth in Article 10.1 or those procedures set forth in Article 10.3 and entered into the Clearing Participant Agreement pursuant to Article 11, JSCC shall grant the CDS Clearing Qualification to the Applicant on the Qualification Date. When the Applicant is granted the CDS Clearing Qualification pursuant to Article 10.3, the provisions of this Paragraph shall apply only for the procedures which JSCC requires the Applicant to follow by the Qualification Date.
- 2 When JSCC grants the CDS Clearing Qualification to Applicant in accordance with Paragraph 1, JSCC shall promptly notify other Clearing Participants and make a public announcement to that effect.

Section 2 Obligations of Clearing Participants (Articles 13 – 21)

Article 13. Clearing Participant Representative

- 1 A Clearing Participant shall designate its representative director or representative executive officer, or in case of a foreign Clearing Participant its representative in Japan, as its CDS Clearing Business representative and notify JSCC of such designation in advance in a manner prescribed by JSCC²⁶.
- 2 Only the Clearing Participant representative of whom JSCC is so notified may represent the Clearing Participant to JSCC; provided, however, that for routine operations, a Clearing Participant may register a person(s) to act within a limited scope defined by said Clearing Participant in advance.

Article 14. Person in Charge of Settlement Operation

A Clearing Participant shall appoint a person in charge of supervising the settlement of Cleared Contracts from among its Officers and employees, and notify JSCC of such person pursuant to the Subordinate Rules²⁷.

Article 15. Control or Influence by Officers or Other Persons

- 1 When JSCC regards an Officer or other person as having Control or Influence over a

²⁵ cf. Handling Procedures of CDS Clearing Business Rules, Article 6.

²⁶ cf. Handling Procedures of CDS Clearing Business Rules, Article 20.

²⁷ cf. Handling Procedures of CDS Clearing Business Rules, Article 20.

Clearing Participant that is inappropriate for a sound operation of Clearing Business from JSCC's perspective, following consultation with the Clearing Participant, JSCC may request changes to the relationship by providing the Clearing Participant with an explanation of its view; provided, however, that the Clearing Participant may submit a written statement in lieu of such consultation.

- 2 The procedures for the consultation described in Paragraph 1 shall be separately prescribed by JSCC²⁸.
- 3 When the Clearing Participant refuses to respond to the consultation described in Paragraph 1 without justifiable grounds, JSCC may request changes prescribed in Paragraph 1 without consultation.
- 4 When the Clearing Participant considers that the request for changes as set forth in Paragraph 1 is unreasonable, the Clearing Participant may raise an objection in writing to JSCC by presenting the reason therefor within 10 days after the receipt of the notice of the request for changes.
- 5 Upon receipt of the objection set forth in Paragraph 4, JSCC shall convene a board meeting as soon as possible.
- 6 If, at the board meeting held in accordance with the provisions of Paragraph 5, it is considered appropriate to modify or withdraw the request for changes set forth in Paragraph 1, said request for changes shall be immediately modified or withdrawn.

Article 16. Payment of Fees by Clearing Participant

A Clearing Participant shall pay the fees prescribed in the Subordinate Rules²⁹ to JSCC pursuant to such Subordinate Rules.

Article 17. Deposit of CDS Clearing Fund

- 1 A Clearing Participant shall deposit its CDS Clearing Fund with JSCC in the manner prescribed by JSCC³⁰ in order to secure any and all obligations owed by such Clearing Participant to JSCC in respect of the CDS Clearing Business (referred to as "Secured Obligations" in Paragraph 4) as well as to apply to a recovery of losses incurred by JSCC pursuant to the provisions of the Rules due to a Default of one or more other Clearing

²⁸ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 21.

²⁹ *cf.* Rules on Fees for CDS Clearing Business, Article 2.

³⁰ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 22.1.

Participant(s).

- 2 When the deposited balance of the CDS Clearing Fund, or, if all or a part of the deposited CDS Clearing Fund has been used to recover losses incurred by JSCC in accordance with the Rules following the Default of another Clearing Participant, the balance of the CDS Clearing Fund remaining thereafter is less than the required amount of such CDS Clearing Fund prescribed in the Subordinate Rules³¹ ("Required CDS Clearing Fund"), the Clearing Participant shall deposit with JSCC an amount at least equal to such shortfall by 2:00 p.m. on the JSCC Business Day immediately following the day on which such shortfall occurs.
- 3 When the deposited balance of the CDS Clearing Fund, or, if all or a part of the deposited CDS Clearing Fund has been used to recover losses incurred by JSCC in accordance with the Rules upon a Default of another Clearing Participant, the deposited balance of the CDS Clearing Fund remaining thereafter, exceeds the Required CDS Clearing Fund, the Clearing Participant may claim the return of an amount up to the excess amount.
- 4 JSCC may apply the CDS Clearing Fund, remaining after the payment of cost of a liquidation of Eligible Securities Collateral if CDS Clearing Fund has been deposited in the form of Eligible Securities Collateral, to the performance of the Secured Obligations in accordance with the Rules
- 5 Deposits of CDS Clearing Fund shall be deemed to be deposits for consumption (*shohi kitaku*) for collateral purpose in the case of the CDS Clearing Fund in the form of cash; and loans for consumption (*shohi taishaku*) free of charge for collateral purpose in the case of the CDS Clearing Fund in the form of Eligible Securities Collateral.
- 6 Notwithstanding the provisions of the Civil Code (Act No. 89 of 1986) and the Commercial Code (Act No. 48 of 1899), a Clearing Participant may request return of the CDS Clearing Fund or make any other request only as prescribed in the Rules.

Article 18. Limits of Liability

JSCC shall not be liable to indemnify a Clearing Participant or a Customer for damages suffered by it in the course of its business operation in relation to JSCC's CDS Clearing Business, other than damages caused by a failure to perform obligations arising from Cleared Contracts and other damages separately prescribed by JSCC³², unless there is willful misconduct or gross negligence on the part of JSCC.

³¹ cf. Rules on Required CDS Clearing Fund.

³² cf. Handling Procedures of CDS Clearing Business Rules, Article 23.

Article 19. Notifiable Matters

When a Clearing Participant or its Parent Company providing a Parental Guarantee to said Clearing Participant intends to carry out any of the following actions, the Clearing Participant shall notify JSCC in advance pursuant to the Subordinate Rules³³, provided that if prior notification is impracticable or extremely difficult for legal, regulatory or other reasons, such notification shall be submitted promptly following the action:

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

³³ cf. Handling Procedures of CDS Clearing Business Rules, Article 20.

- (9) Change in the trading name or company name, including changes to the trading name or company name in English; and
- (10) Change of address of its headquarters or principal office.

Article 20. Matters to be Reported

When any other events relating to Clearing Participants and prescribed by JSCC³⁴ occur, the Clearing Participant shall immediately report the details thereof to JSCC.

Article 21. Inspection of Clearing Participant

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

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

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

2 Matters necessary for the inspection set forth in Paragraph 1 shall be prescribed in the Subordinate Rules³⁵.

Section 3 Voluntary Renunciation of CDS Clearing Qualification (Articles 22 – 27)

Article 22. Application to Renounce CDS Clearing Qualification

1 In order to renounce its CDS Clearing Qualification, a Clearing Participant shall advise

³⁴ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 24.

³⁵ *cf.* Rules on Inspection of Clearing Participant in relation to CDS Clearing Business.

JSCC of the intended renunciation in the manner prescribed by JSCC³⁶.

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

Article 23. Renunciation of CDS Clearing Qualification

- 1 If a Clearing Participant advises JSCC of its intention to renounce its CDS Clearing Qualification pursuant to Article 22.1, such renunciation shall become effective at the later of the time designated by JSCC³⁷ on the 30th day after such advice and the time by which all outstanding Cleared Contracts other than those designated by JSCC³⁸ to which such Clearing Participant is a party have been cancelled; provided that if the advice of intent to renounce its CDS Clearing Qualification is in the course of a Default Settlement Period or a Default Settlement Period commences during the period between the date of such advice and the date of renunciation of the CDS Clearing Qualification that would otherwise become effective, such renunciation shall become effective at the later of the time designated by JSCC on the last day of the Default Settlement Period and the time by which all outstanding Cleared Contracts other than those designated by JSCC to which such Clearing Participant is a party have been cancelled.
- 2 When a Clearing Participant renounces its CDS Clearing Qualification pursuant to the provisions of Paragraph 1, JSCC shall notify other Clearing Participants and make a public announcement of such renunciation.

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

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

³⁶ cf. Handling Procedures of CDS Clearing Business Rules, Article 25.1.

³⁷ cf. Handling Procedures of CDS Clearing Business Rules, Article 26.

³⁸ cf. Handling Procedures of CDS Clearing Business Rules, Article 27.

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

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

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

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

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

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

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

Section 4 Actions against Clearing Participants (Articles 28 – 39)**Article 28. Actions against Clearing Participant**

1 If a Clearing Participant or its Parent Company providing a Parental Guarantee, if any, is subject to any of the below listed events and where JSCC deems it necessary in order to protect the CDS Clearing Business taking into account the cause, likelihood of recurrence, impact on the CDS Clearing Business and other factors, JSCC may at its discretion, following consultation with the Clearing Participant, (a) instruct such Clearing Participant to make improvements to its business and procedures, to the extent deemed necessary and appropriate by JSCC ("Instruction to Improve"), (b) suspend Clearing for the Clearing Participant entirely or in part, or (c) revoke the Clearing Participant's CDS Clearing Qualification, providing the reason for such action; provided that a revocation of the CDS Clearing Qualification requires a resolution of the board of directors of JSCC:

- (1) When the Clearing Participant does not submit the notification prescribed in Article 19 or the report prescribed in Article 20, or submits any false notification or report;
- (2) When the Clearing Participant refuses, obstructs or evades inspection as prescribed in Article 21, or fails to submit the report or documents required to be submitted under Article 21 or submits any false report or document;
- (3) When its business capability is deemed to be inadequate; or
- (4) Otherwise, when the Clearing Participant violates the Rules or fails to comply with actions taken by JSCC in accordance therewith, or when the Clearing Participant damages the reputation of JSCC or the Clearing Participants, and JSCC deems it necessary to take such action to protect the continued operation of the CDS Clearing Business.

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

- (1) When the Clearing Participant rejects a request for change with respect to Officers or other persons controlling or influencing the Clearing Participant in accordance with Article 15;
- (2) When a majority of the voting rights of shareholders, partners, members, union members, or equity holders, or in the case of a company limited by shares, the voting rights attached to shares excluding the voting rights that may only be exercised with respect to limited matters to be resolved at general meetings of shareholders, but including the voting rights attached to shares which are deemed to have voting rights pursuant to Article 879.3 of the Companies Act (Act No. 86 of 2005) are held by persons who are considered to be inappropriate to hold such voting rights for the continued good operation of the CDS Clearing Business; or
- (3) When any person holding the same or a greater control over the Clearing Participant than that held by a director or an executive officer is considered inappropriate for the continued good operation of the CDS Clearing Business, regardless of title, whether

referred to as a consultant, advisor or otherwise.

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

- (1) Where the Clearing Participant has no Parental Guarantee:
 - a. If the Clearing Participant is a Financial Instruments Business Operator, when its Capital-to-Risk Ratio becomes, or, in the case of a Special Operator its Capital-to-Risk Ratio and Consolidated Capital-to-Risk Ratio become, less than 250%, and JSCC determines that its creditworthiness is likely to worsen significantly;
 - b. If the Clearing Participant is a Registered Financial Institution subject to Uniform International Standard:
 - (a) when its non-consolidated or consolidated Common Equity Tier 1 ratio becomes less than 5.625%;
 - (b) when its non-consolidated or consolidated Tier 1 ratio becomes less than 7.5%; or
 - (c) when its non-consolidated or consolidated Total Capital ratio becomes less than 10%;
 and when JSCC determines that its creditworthiness is likely to worsen significantly (or, in the case of a foreign bank, when any similar event occurs);
 - c. If the Clearing Participant is a Registered Financial Institution subject to Japanese Standard, when its non-consolidated or consolidated capital adequacy ratio under the Japanese Standard becomes less than 5% and JSCC determines that its creditworthiness is likely to worsen significantly;
 - d. If the Clearing Participant is an insurance company which is a Registered Financial Institution, when its non-consolidated or consolidated Solvency Margin Ratio becomes less than 500%, and when JSCC determines that its creditworthiness is likely to worsen significantly; or
 - e. When JSCC determines that the Clearing Participant's creditworthiness has worsened significantly.

- (2) Where the Clearing Participant has a Parental Guarantee from its Parent Company:
- a. If the Clearing Participant is a Financial Instruments Business Operator, when the Clearing Participant's Capital-to-Risk Ratio becomes, or, in the case of a Special Operator its Capital-to-Risk Ratio and Consolidated Capital-to-Risk Ratio become, less than 250%, its Parent Company is subject to the declining creditworthiness defined in Paragraph 4 below, and JSCC considers that the creditworthiness of the Parent Company is likely to worsen significantly;
 - b. If the Clearing Participant is a Registered Financial Institution subject to Uniform International Standard:
 - (a) when its non-consolidated or consolidated Common Equity Tier 1 ratio becomes less than 5.625%;
 - (b) when its non-consolidated or consolidated Tier 1 ratio becomes less than 7.5%; or
 - (c) when its non-consolidated or consolidated Total Capital ratio becomes less than 10%;
 and its Parent Company is subject to the declining creditworthiness defined in Paragraph 4 below, and JSCC considers that the creditworthiness of the Parent Company is likely to worsen significantly, or, in the case of a foreign bank, when any similar event occurs:
 - c. If the Clearing Participant is a Registered Financial Institution subject to Japanese Standard, when its non-consolidated or consolidated capital adequacy ratio under the Japanese Standard becomes less than 5% and its Parent Company is subject to the declining creditworthiness defined in Paragraph 4 below, and JSCC considers that the creditworthiness of the Parent Company is likely to worsen significantly;
 - d. If the Clearing Participant is an insurance company which is a Registered Financial Institution, when its non-consolidated or consolidated Solvency Margin Ratio becomes less than 500% and its Parent Company is subject to the declining creditworthiness defined in Paragraph 4 below, and JSCC considers that the creditworthiness of the Parent Company is likely to worsen significantly; or

- e. When JSCC determines that the creditworthiness of its Parent Company has worsened significantly.
- 4 The “declining creditworthiness” of a Parent Company as set forth in Paragraph 3.(2) shall be, depending upon the category into which the Parent Company falls, the event set forth below:
- (1) If a Parent Company is a Financial Instruments Business Operator:
When its Capital-to-Risk Ratio becomes, or, in the case of a Special Operator its Capital-to-Risk Ratio and Consolidated Capital-to-Risk Ratio become, less than 250%.
 - (2) If a Parent Company is a Registered Financial Institution subject to Uniform International Standard:
 - a. when its non-consolidated or consolidated Common Equity Tier 1 ratio becomes less than 5.625%;or
 - b. when its non-consolidated or consolidated Tier 1 ratio becomes less than 7.5%;
or
 - c. when its non-consolidated or consolidated Total Capital ratio becomes less than 10%;
or, in the case of a foreign bank, when an equivalent event occurs.
 - (3) If a Parent Company is a Registered Financial Institution subject to Japanese Standard:
When its non-consolidated or consolidated capital adequacy ratio under the Japanese Standard becomes less than 5%.
 - (4) If a Parent Company is an insurance company which is a Registered Financial Institution:
When its non-consolidated or consolidated Solvency Margin Ratio becomes less than 500%.
 - (5) For a Parent Company other than above:
When any equivalent event occurs on the part of such Parent Company.

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

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

- a. When the Clearing Participant's Net Capital becomes less than JPY100 billion (100,000,000) and prompt recovery from such condition cannot be expected;
- b. If the Clearing Participant is a Financial Instruments Business Operator, when its Capital-to-Risk Ratio becomes less than 200% and prompt recovery from such condition cannot be expected;
- c. If the Clearing Participant is a Special Operator, when its Consolidated Capital-to-Risk Ratio becomes less than 200% and prompt recovery from such condition cannot be expected;
- d. If the Clearing Participant is a Registered Financial Institution subject to Uniform International Standard:
 - (a) when its non-consolidated or consolidated Common Equity Tier 1 ratio becomes less than 4.5% and prompt recovery from such condition cannot be expected; or
 - (b) when its non-consolidated or consolidated Tier 1 ratio becomes less than 6% and prompt recovery from such condition cannot be expected; or
 - (c) when its non-consolidated or consolidated Total Capital ratio becomes less than 8% and prompt recovery from such condition cannot be expected;

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

- e. If the Clearing Participant is a Registered Financial Institution subject to Japanese Standard, when its non-consolidated or consolidated capital adequacy ratio under the Japanese Standard becomes less than 4%, and prompt recovery from such condition cannot be expected; and
- f. If the Clearing Participant is an insurance company, when its non-consolidated or consolidated Solvency Margin Ratio becomes less than 400% and prompt recovery from such condition cannot be expected.

- (2) Where the Clearing Participant has a Parental Guarantee from its Parent Company:
- a. When the Clearing Participant's Net Capital becomes less than JPY50 billion (50,000,000) and prompt recovery from such condition cannot be expected;
 - b. When the Net Capital of the Clearing Participant's Parent Company, or, if such Parent Company is neither a Financial Instruments Business Operator nor a Registered Financial Institution, the amount equivalent thereto, becomes less than JPY100 billion (100,000,000,000); or, if the Parent Company provides Parental Guarantee to one or more other Clearing Participants, the Net Capital or its equivalent becomes less than the amount equal to the product of JPY100 billion (100,000,000,000) and the number of the Clearing Participants guaranteed by that Parent Company, or, if the Parent Company itself is a Clearing Participant, the number of the guaranteed Clearing Participants plus one; and prompt recovery from such condition cannot be expected;
 - c. If the Clearing Participant is a Financial Instruments Business Operator, when any of the events set forth in Item (1).b. or c. occurs and at the same time its Parent Company is subject to the declining creditworthiness as defined in Paragraph 6 below, and prompt recovery from such condition cannot be expected; and
 - d. If the Clearing Participant is a Registered Financial Institution, when any of the events set forth in Item (1). d. to f. occurs and at the same time its Parent Company is subject to the declining creditworthiness as defined in Paragraph 6 below, and prompt recovery from such condition cannot be expected.

6 The "declining creditworthiness" of a Parent Company as set forth in Paragraph 5.(2).c. and d. shall be, depending upon the category into which the Parent Company falls, the event set forth below:

- (1) If a Parent Company is a Financial Instruments Business Operator:
When its Capital-to-Risk Ratio becomes, or, in the case of a Special Operator, its Capital-to-Risk Ratio and Consolidated Capital-to-Risk Ratio become, less than 200%;
- (2) If a Parent Company is a Registered Financial Institution subject to Uniform International Standard:

- a. when its non-consolidated or consolidated Common Equity Tier 1 ratio becomes less than 4.5%;
- b. when its non-consolidated or consolidated Tier 1 ratio becomes less than 6%; or
- c. when its non-consolidated or consolidated Total Capital ratio becomes less than 8%;

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

- (3) If a Parent Company is a Registered Financial Institution subject to Japanese Standard:

When its non-consolidated or consolidated capital adequacy ratio under the Japanese Standard becomes less than 4%;

- (4) If a Parent Company is an insurance company which is a Registered Financial Institution:

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

- (5) For a Parent Company other than above:

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

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

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

Article 29. Actions against Clearing Participant Holding Excessively Large Position

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

2 When a Clearing Participant is holding an excessively large position, JSCC may increase the Required Initial Margin for such Clearing Participant in the manner prescribed by JSCC³⁹. For the purpose of this Paragraph 2 and Paragraph 3, "holding an excessively large position" refers to the cases separately designated by JSCC as a state where the Clearing Participant's portfolio is considered to be extremely large comparing to its Net Capital⁴⁰, or, in the case of a Clearing Participant subject to a Parental Guarantee, comparing to the Net Capital of the Clearing Participant itself as well as of its Parent Company or a state where position excessively concentrates on the Clearing Participant vis-a-vis market condition⁴¹.

3 When JSCC determines that a Clearing Participant is holding an excessively large position, or has a concrete reason for a likelihood thereof, on the day a CDS Transaction becomes effective pursuant to the provisions of Article 49.1 and JSCC considers it necessary for an appropriate and sound execution of its CDS Clearing Business, JSCC may withhold Clearing requested by that Clearing Participant.

Article 30. Instruction to Manage Risk

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

2 The Clearing Participant in receipt of the instruction set forth in Paragraph 1 shall take necessary measures in order to manage risks of its Cleared Contracts on or before the deadline date set by JSCC on each occurrence.

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

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

If JSCC deems it necessary in order to ensure a Clearing Participant's continued performance of its obligations with respect to its Cleared Contracts or Clearing Brokerage Contracts, taking into consideration the creditworthiness of a Clearing Participant, and to

³⁹ cf. Handling Procedures of CDS Clearing Business Rules, Article 30.

⁴⁰ cf. Handling Procedures of CDS Clearing Business Rules, Article 28.

⁴¹ cf. Handling Procedures of CDS Clearing Business Rules, Article 29.

the extent necessary, JSCC may increase the haircut applied to the valuation of Eligible Securities Collateral.

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

When JSCC considers that a Clearing Participant meets any of the below listed criteria, JSCC may increase the Required Initial Margin in the manner prescribed by JSCC⁴²:

- (1) Where the Clearing Participant has no Parental Guarantee:
 - a. If the Clearing Participant is a Financial Instruments Business Operator, when its Capital-to-Risk Ratio, or in the case of a Special Operator, its Capital-to-Risk Ratio and Consolidated Capital-to-Risk Ratio (the same shall apply in this Article), falls below the level separately set by JSCC⁴³, and its creditworthiness has deteriorated in a manner specified by JSCC⁴⁴;
 - b. If the Clearing Participant is a Registered Financial Institution other than an insurance company, when its non-consolidated or consolidated capital adequacy ratio falls below the level set by JSCC⁴⁵, and its creditworthiness has deteriorated in a manner specified by JSCC⁴⁶;
 - c. If the Clearing Participant is an insurance company which is a Registered Financial Institution, when its non-consolidated or consolidated Solvency Margin Ratio falls below the level set by JSCC⁴⁷, and its creditworthiness has deteriorated in a manner specified by JSCC⁴⁸; and
 - d. When the Clearing Participant's creditworthiness is judged inadequate based on criteria set by JSCC in a notification or a public notice⁴⁹.
- (2) Where the Clearing Participant has a Parental Guarantee from its Parent Company:
 - a. If the Clearing Participant is a Financial Instruments Business Operator, when its

⁴² cf. Handling Procedures of CDS Clearing Business Rules, Article 31.1.

⁴³ cf. Handling Procedures of CDS Clearing Business Rules, Article 31.2.

⁴⁴ cf. Handling Procedures of CDS Clearing Business Rules, Article 31.2.

⁴⁵ cf. Handling Procedures of CDS Clearing Business Rules, Article 31.3.

⁴⁶ cf. Handling Procedures of CDS Clearing Business Rules, Article 31.3.

⁴⁷ cf. Handling Procedures of CDS Clearing Business Rules, Article 31.4.

⁴⁸ cf. Handling Procedures of CDS Clearing Business Rules, Article 31.4.

⁴⁹ Deterioration of creditworthiness will be judged based on criteria set by JSCC in a notification or a public notice. It is available at;

[01cds_GuidelinesConcerningCreditworthinessofClearingParticipantsandtheLikeinCDSClearingBusiness_20130331_e.pdf](#)

Capital-to-Risk Ratio falls below the level set by JSCC⁵⁰, and its Parent Company is subject to an event specified by JSCC⁵¹, and the creditworthiness of its Parent Company deteriorates in a manner specified by JSCC⁵²;

- b. If the Clearing Participant is a Registered Financial Institution other than an insurance company, when its non-consolidated or consolidated capital adequacy ratio falls below the level set by JSCC⁵³, and its Parent Company is subject to an event specified by JSCC⁵⁴, and the creditworthiness of its Parent Company deteriorates in a manner specified by JSCC⁵⁵;
- c. If the Clearing Participant is an insurance company which is a Registered Financial Institution, when its non-consolidated or consolidated Solvency Margin Ratio falls below the level set by JSCC⁵⁶, and its Parent Company is subject to an event specified by JSCC⁵⁷, and the creditworthiness of its Parent Company deteriorates in a manner specified by JSCC⁵⁸; and
- d. When the Parent Company's creditworthiness is judged inadequate based on criteria set by JSCC in a notification or a public notice⁵⁹.

Article 33. Actions taken upon Default of Clearing Participant

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

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

⁵⁰ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 31.5.

⁵¹ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 31.8.

⁵² *cf.* Handling Procedures of CDS Clearing Business Rules, Article 31.5.

⁵³ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 31.6.

⁵⁴ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 31.8.

⁵⁵ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 31.6.

⁵⁶ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 31.7.

⁵⁷ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 31.8.

⁵⁸ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 31.7.

⁵⁹ Deterioration of creditworthiness will be judged based on criteria set by JSCC in a notification or a public notice. It is available at;

[01cds_GuidelinesConcerningCreditworthinessofClearingParticipantsandtheLikeinCDSClearingBusiness_20130331_e.pdf](#)

Article 34. Lifting Suspension of Clearing or Other Action

- 1 In the event that JSCC has suspended Clearing for a Clearing Participant pursuant to Article 28 for an indefinite period, the Clearing Participant subject to such suspension may request that JSCC lift such suspension by submitting written explanation in the form prescribed by JSCC, when the cause of such suspension has ceased to exist.
- 2 When JSCC deems it appropriate considering the CDS Clearing Business, JSCC will lift the suspension based on the above request.
- 3 If the suspension of Clearing set forth in Paragraph 1 has not been lifted pursuant to the provisions set forth in Paragraph 2 within six (6) months from the date of commencement of such suspension, JSCC may revoke such Clearing Participant's CDS Clearing Qualification subject to a resolution of the board of directors of JSCC.
- 4 The provisions of Paragraphs 1 and 2 above shall apply *mutatis mutandis* with respect to the actions taken by JSCC in accordance with Article 29, Article 30 and Article 32.

Article 35. Objection

The proviso to Article 15.1, and the provisions of Articles 15.2 and 15.3 shall apply *mutatis mutandis* when a consultation is held under Article 28 and Article 30, and the provisions of Articles 15.4 through 15.6 shall apply *mutatis mutandis* when the actions set forth in Articles 28 through 30 are taken.

Article 36. Disciplinary Measures Assessment Committee

- 1 When JSCC intends to take any of the actions set forth in Article 28 and Article 30 against a Clearing Participant, JSCC shall consult with the Disciplinary Measures Assessment Committee in advance regarding the appropriateness of such actions, and consider their opinion.
- 2 Notwithstanding the provisions of Paragraph 1, when urgent action is required, JSCC may take such actions without consultation with the Disciplinary Measures Assessment Committee.
- 3 In addition to the provisions prescribed in Paragraphs 1 and 2, other matters concerning the Disciplinary Measures Assessment Committee shall be prescribed in the Subordinate Rules⁶⁰.

⁶⁰ cf. Disciplinary Measures Assessment Committee Rules.

Article 37. Notice of Actions

- 1 When JSCC is to completely or partially suspend Clearing or to revoke a CDS Clearing Qualification pursuant to these Business Rules, JSCC shall give notice of such suspension or revocation to the relevant Clearing Participant in advance.
- 2 When JSCC has completely or partially suspended Clearing for a Clearing Broker or revoked its CDS Clearing Qualification, such Clearing Broker shall immediately give notice of such suspension or revocation to all Customers with which they have Clearing Brokerage Agreements.
- 3 When JSCC has instructed a Clearing Participant to make improvements, completely or partially suspended Clearing for a Clearing Participant, revoked a CDS Clearing Qualification or instructed a Clearing Participant to reduce the risk of its cleared positions pursuant to these Business Rules, after taking such action, JSCC shall promptly notify other Clearing Participants and make a public announcement to that effect; provided that if JSCC deems it necessary and appropriate in light of the impact of such notification on the market, and other factors, JSCC may make such notification and announcement when JSCC deems it appropriate.
- 4 When making the notification and public announcement prescribed in Paragraph 3, JSCC shall decide the scope of such notification and public announcement separately for each occurrence, in light of the significance of the action, market impact and other related factors.

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

- 1 In the event of a revocation of CDS Clearing Qualification of a Clearing Participant other than the revocation caused by the event listed in Article 33.1.(1), such Clearing Participant shall terminate all of its outstanding Cleared Contracts other than those designated by JSCC⁶¹ within the period specified by JSCC.
- 2 In the case set forth in Paragraph 1, if the Clearing Participant fails to terminate all outstanding Cleared Contracts within the period specified according to the provisions of Paragraph 1, such Cleared Contracts were treated in the same manner as the provisions set forth in Chapter 10, Section 2 of these Business Rules, excluding Articles 97 through 99. In such case, JSCC shall decide on such other matters as become necessary.

⁶¹ cf. Handling Procedures of CDS Clearing Business Rules, Article 27.

3 Matters necessary for the termination of Cleared Contracts set forth in Paragraph 1 shall be separately prescribed by JSCC.

Article 39. Recommendation to Clearing Participant

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

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

Section 5 Miscellaneous (Articles 39-2 – 47)

Article 39-2. Handling of Cleared Contracts Designating Clearing Participant itself as Reference Entity

1 A Clearing Participant may not hold a net short position in Cleared Contracts of Single Name CDS Transactions designating itself or any entity in the same Corporate Group as Reference Entity. For the purpose of this Article, "net short" refers to the state where the aggregate Notional Amount of Cleared Contracts designating a specific Reference Entity to which the relevant Clearing Participant is the Seller is more than the aggregate Notional Amount of Cleared Contracts designating the same Reference Entity to which the relevant Clearing Participant is the Buyer.

2 When, as a result of a merger or other similar event, Clearing Participant's Cleared Contracts turn out to designate itself as the Reference Entity and its position in such Cleared Contracts becomes net short, the Clearing Participant must close out the net short position in the Cleared Contracts within the period specified by JSCC on each occasion.

3 In the case set forth in Paragraph 2, if the Clearing Participant is unable to close out the net short position within the period specified according to the provisions of Paragraph 2, such net short position in the Cleared Contracts were treated in the same manner as the provisions set forth in Article 96 and Article 100. In such case, JSCC shall decide on such other matters as become necessary.

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

- 1 A Clearing Participant causing its business to be succeeded by another Clearing Participant through a demerger, or transferring its business to another Clearing Participant (referred to as "Demerged Participant" in this Article) may, when it does not renounce its CDS Clearing Qualification simultaneously with such succession or transfer, with JSCC's approval, have such other Clearing Participant (referred to as "Taking-over Participant" in this Article) take over the outstanding Cleared Contracts involved in the succession or transfer of such business (referred to as "Taken-over Contracts" in this Article).
- 2 In the event of business transfer set forth in Paragraph 1, when the Taken-over Contracts were Customer's Cleared Contracts, the Demerged Participant shall obtain the consent of the Customer, for whom it is acting as Clearing Broker in respect of the Taken-over Contracts, to such take-over.
- 3 Costs required for taking over the Taken-over Contracts under this Article shall be borne by the Demerged Participant or Taking-over Participant.

Article 40-2. Take-over by Customer of Outstanding Contracts from Clearing Participant resulting from Merger, Demerger or Business Transfer

- 1 A Clearing Participant merged into a Customer, causing its business to be succeeded by a Customer through a demerger, or transferring its business to a Customer (referred to as "Merged Participant" in this Article) may, with JSCC's approval, have such Customer (referred to as "Taking-over Customer" in this Article) take over the outstanding Proprietary Cleared Contracts involved in the merger, succession or transfer of such business (referred to as "Taken-over Contracts" in this Article). In this case, the Taken-over Contracts shall be deemed to be the Clearing Brokerage Contracts between the Taking-over Customer and its Clearing Broker and the Customer's Cleared Contracts corresponding to the Clearing Brokerage Contracts between such Clearing Broker and JSCC for the purpose of the application of the Rules.
- 2 In the case of Paragraph 1, the Taking-over Customer shall obtain the consent of the Clearing Broker mentioned in Paragraph 1 on the take-over of the Taken-over Contracts in advance.
- 3 When JSCC considers that acquisition by the Taking-over Customer of the consent set forth in Paragraph 2 cannot be expected, notwithstanding the provisions of Paragraph 1, JSCC may have the Merged Participant and the Taking-over Customer terminate the Taken-over Contracts or make other arrangements deemed necessary.

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

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

- 1 A Customer merged into a Clearing Participant, causing its business to be succeeded by a Clearing Participant through a demerger, or transferring its business to a Clearing Participant (referred to as "Merged Customer" in this Article) may, with JSCC's approval, have such Clearing Participant (referred to as "Taking-over Participant" in this Article) take over the outstanding Clearing Brokerage Contracts involved in the merger, succession or transfer of such business (referred to as "Taken-over Contracts" in this Article). In this case, the Taken-over Contracts shall be deemed to be the Proprietary Cleared Contracts between such Taking-over Participant and JSCC for the purpose of the application of the Rules.
- 2 When the taking over set forth in Paragraph 1 occurs, the Customer's Cleared Contracts corresponding to the Taken-over Contracts between the Clearing Broker for the Merged Customer and JSCC shall terminate as a matter of course.
- 3 In the case of Paragraph 1, the Merged Customer shall obtain the consent of the Clearing Broker mentioned in Paragraph 2 on the take-over of the Taken-over Contracts in advance.
- 4 When JSCC considers that acquisition by the Merged Customer of the consent set forth in Paragraph 3 cannot be expected, notwithstanding the provisions of Paragraphs 1 and 2, JSCC may have the Merged Customer and the Taking-over Participant terminate the Taken-over Contracts or make other arrangements deemed necessary.
- 5 Costs required for taking over the Taken-over Contracts under this Article shall be borne by the Merged Customer or the Taking-over Participant.

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

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

Taken-over Contracts shall be deemed to be the Clearing Brokerage Contracts between the Taking-over Customer and its Clearing Broker and the Customer's Cleared Contracts corresponding to the Clearing Brokerage Contracts between such Clearing Broker and JSCC for the purpose of the application of the Rules.

- 2 When the taking over set forth in Paragraph 1 occurs, the Customer's Cleared Contracts corresponding to the Taken-over Contracts between the Clearing Broker for the Merged Customer and JSCC shall terminate as a matter of course.
- 3 In the case of Paragraph 1, the Merged Customer and the Taking-over Customer shall obtain the consent of their respective Clearing Broker on the take-over of the Taken-over Contracts in advance.
- 4 When JSCC considers that acquisition by the Merged Customer or the Taking-over Customer of the consent set forth in Paragraph 3 cannot be expected, notwithstanding the provisions of Paragraphs 1 and 2, JSCC may have the Merged Customer and the Taking-over Customer terminate the Taken-over Contracts or make other arrangements deemed necessary.
- 5 Costs required for taking over the Taken-over Contracts under this Article shall be borne by the Merged Customer or the Taking-over Customer.

Article 40-5. Foreign Entity Having Branch Registered as Registered Financial Institution

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

Chapter 3 Clearing Brokerage (Articles 41 – 47)

Article 41. Subject Transaction for Clearing Brokerage

The Subject Transactions that may be cleared on behalf of a Customer by a Clearing Participant providing Clearing Brokerage shall be Eligible CDS Transactions.

Article 42. Conclusion of Clearing Brokerage Agreement

- 1 A Clearing Participant shall enter into a Clearing Brokerage Agreement with a potential Customer before acting as a Clearing Broker.
- 2 If a potential Customer requests a Clearing Participant to act as its Clearing Broker, the

potential Customer shall enter into a Clearing Brokerage Agreement with such Clearing Participant and submit to JSCC via the Clearing Participant a letter of undertaking in the form prescribed by JSCC⁶² stating that it shall comply with such Clearing Brokerage Agreement and the Rules.

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

Article 43. Notification of Conclusion of Clearing Brokerage Agreement

- 1 When a Clearing Participant intends to enter into a Clearing Brokerage Agreement, it shall notify JSCC of the details thereof in advance in a manner separately prescribed by JSCC⁶³.
- 2 Upon receipt of the notification set forth in Paragraph 1 from a Clearing Participant, unless the notification set forth in Paragraph 1 has already been given by another Clearing Participant in respect of the same Customer, JSCC shall promptly notify other Clearing Participants, and give public notice, of the trade name of and other matters related to such Customer according to the notification given by the Clearing Participant.

Article 44. Notification of Termination of Clearing Brokerage Agreement

- 1 When a Clearing Brokerage Agreement is terminated, the relevant Clearing Broker shall notify JSCC of the details of such termination in the manner set forth below according to the cause of termination, as well as items as separately prescribed by JSCC⁶⁴:
- (1) Termination by agreement:
A Clearing Broker shall submit a notification at least three (3) JSCC Business Days before the scheduled termination date;
 - (2) Termination by a prior written notice of intention to terminate the Clearing Brokerage Agreement given by a Clearing Broker to a Customer (excluding the termination set forth in Item (4)):
The Clearing Broker shall submit a notification without delay after it gives such notice of its intention to terminate;
 - (3) Termination by a Customer by giving a prior written notice of its intention to terminate the Clearing Brokerage Agreement to a Clearing Broker:

⁶² cf. Handling Procedures of CDS Clearing Business Rules, Article 33, as well as Exhibit Form 3.

⁶³ cf. Handling Procedures of CDS Clearing Business Rules, Article 20.

⁶⁴ cf. Handling Procedures of CDS Clearing Business Rules, Article 20.

The Clearing Broker shall submit a notification without delay after it receives such notice of the intention to terminate; and

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

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

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

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

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

Article 45. Validity of Letter of Undertaking

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

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

Article 46. Segregation of Cleared Contracts

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

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

Article 47: (Deleted)

Chapter 4 Clearing and Cleared Contracts

Section 1 Clearing (Article 48 – 50)

Article 48. Request for Clearing

1 A Clearing Participant may submit a request for Clearing to JSCC by giving notification in the method prescribed by JSCC⁶⁵.

2 The request for Clearing pursuant to the provisions of Paragraph 1 shall be made by both parties to the Eligible CDS Transaction for which Clearing is requested, in the manner prescribed by JSCC⁶⁶.

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

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

5 A Clearing Participant may withdraw a request set forth in Paragraph 1 and a declaration of intent to agree to terminate in accordance with the provisions of Paragraphs 3 and 4 only if it withdraws all of such requests and declaration of intent.

Article 49. Execution of Cleared Contracts through Clearing

⁶⁵ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 35.1.

⁶⁶ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 35.2.

- 1 When JSCC receives a request set forth in Article 48.1 from both parties to an Eligible CDS Transaction and confirms that the request and such Eligible CDS Transaction satisfy the requirements separately prescribed by JSCC⁶⁷, a CDS Transaction between the Clearing Participant who was a Buyer under such Eligible CDS Transaction and JSCC, in which JSCC is the Seller, and another CDS Transaction between the Clearing Participant who was a Seller under such Eligible CDS Transaction and JSCC, in which JSCC is the Buyer, shall come into effect at the time prescribed by JSCC⁶⁸.
- 2 When Cleared Contracts come into effect pursuant to the provisions of Paragraph 1, JSCC shall promptly notify the Clearing Participants who are the parties to such Cleared Contracts to that effect.
- 3 Once the Cleared Contracts come into effect pursuant to the provisions of Paragraph 1, the Clearing Participant may not assert any right against JSCC in respect of the Eligible CDS Transaction prescribed in Paragraph 1 or the Clearing Brokerage Original Transaction, or claims and obligations thereunder, even if there are any grounds entitling it to assert such right against another Clearing Participant or a Customer who was the counterparty thereto, including but not limited to the existence of the relevant Eligible CDS Transaction, defects in expressing its intention or failure to express its intention.

Article 50. Agreed-upon Termination of Eligible CDS Transaction

- 1 The Eligible CDS Transaction that has been cleared and the claims and obligations under such Eligible CDS Transaction shall cease to exist and have no future effect, as of the time when the Cleared Contracts come into effect, by an agreement to the termination between the Clearing Participants which were the parties to such Eligible CDS Transaction in accordance with the provisions of Article 48.3 and other provisions in these Business Rules, except that the below listed obligations shall remain effective after such termination:
 - (1) Payment obligations for the Initial Payment Amount;
 - (2) Payment obligations for the Fixed Amount under the Eligible CDS Transaction which have already become due at the time when such Cleared Contracts come into effect; and
 - (3) Obligations that have already accrued at the time when such Cleared Contracts come into effect, as specified by JSCC.

⁶⁷ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 36.1.

⁶⁸ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 36.2.

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

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

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

Article 51. Details of Cleared Contracts

1 Cleared Contracts shall be governed by the Rules, the ISDA Master Agreement and the ISDA Credit Derivatives Definitions or, for the Pre-Definition Update Clearing Contracts, the ISDA Credit Derivatives Definitions (2003 Version). Any individual 2002 ISDA Master Agreement with its Schedule, or any other form of master agreement, separately prescribed by JSCC⁶⁹, which stipulates basic matters concerning over-the-counter derivative transactions, existing between Clearing Participants, or any other agreement between Clearing Participants which is not prescribed in the Rules, including but not limited to any Confirmation entered into between Clearing Participants which were the parties to the relevant Eligible CDS Transaction, shall have no force or effect on Cleared Contracts.

2 Details of the Cleared Contracts shall be subject to the provisions set forth in Article 49.1 and Paragraph 1 above, and the rules separately prescribed by JSCC⁷⁰.

3 Any replacement of terms and other matters which would become necessary for applying the ISDA Master Agreement and the ISDA Credit Derivatives Definitions or the ISDA Credit Derivatives Definitions (2003 Version) to Cleared Contracts pursuant to the provisions of Paragraph 1 and Article 51-2.1 shall be separately prescribed by JSCC⁷¹.

4 In the event of inconsistency or conflict between the provisions of the ISDA Master Agreement, the ISDA Credit Derivatives Definitions or the ISDA Credit Derivatives Definitions (2003 Version) and the provisions of the Rules, the provisions of the Rules shall prevail.

⁶⁹ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 37.1.

⁷⁰ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 37.5.

⁷¹ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 37.3.

Article 51-2. Change of Terms of Pre-Definition Update Cleared Contracts

- 1 Notwithstanding the provisions of Article 51.1, JSCC may decide that the Pre-Definition Update Cleared Contracts existing as of the date specified by JSCC in a public notice, other than those designated by JSCC⁷², be governed by the ISDA Credit Derivatives Definitions instead of the ISDA Credit Derivatives Definitions (2003 Version) on or after such date.
- 2 Notwithstanding the provisions of Paragraph 1, if JSCC separately designates⁷³, the designated terms of the Pre-Definition Update Cleared Contracts which are to be governed by the ISDA Credit Derivatives Definitions pursuant to the provisions of Paragraph 1 will continue to be governed by the ISDA Credit Derivatives Definitions (2003 Version). In this case, the provisions of the Rules applicable to the 2003 Version Cleared Contracts shall apply to the terms so designated unless otherwise designated by JSCC⁷⁴.
- 3 Changes to the terms of the Pre-Definition Update Cleared Contracts to be governed by the ISDA Credit Derivatives Definitions pursuant to the provisions of Paragraph 1 and other necessary matters shall be subject to Paragraph 1, and as separately prescribed by JSCC⁷⁵.

Article 52. Early Termination Charge

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

Article 53. Compression of Cleared Contracts

- 1 When a Clearing Participant desires the Compression of Cleared Contracts, it shall apply for it to JSCC by giving notice in the method separately prescribed by JSCC⁷⁶.
- 2 If JSCC receives the application for the Compression of Cleared Contracts from a Clearing Participant in accordance with Paragraph 1, JSCC shall check, in the manner separately prescribed by JSCC⁷⁷, to see if the Cleared Contracts and the new Cleared Contract that will come into effect as a result of the Compression satisfy the requirements separately prescribed by JSCC⁷⁸ ("Compression Conditions"). If such Cleared Contracts and new

⁷² cf. Handling Procedures of CDS Clearing Business Rules, Article 37-2.1.

⁷³ cf. Handling Procedures of CDS Clearing Business Rules, Article 37-2.3.

⁷⁴ cf. Handling Procedures of CDS Clearing Business Rules, Article 37-2.4.

⁷⁵ cf. Handling Procedures of CDS Clearing Business Rules, Article 37-2.5.

⁷⁶ cf. Handling Procedures of CDS Clearing Business Rules, Article 38.1.

⁷⁷ cf. Handling Procedures of CDS Clearing Business Rules, Article 38.3.

⁷⁸ cf. Handling Procedures of CDS Clearing Business Rules, Article 38.2.

Cleared Contract that will come into effect as a result of the Compression satisfy the Compression Conditions, JSCC and the Clearing Participant shall have the relevant Cleared Contracts terminated and the new Cleared Contract established as of the time of such confirmation by JSCC.

- 3 In addition to the matters set forth in Paragraphs 1 and 2, matters necessary for the Compression of Cleared Contracts shall be separately prescribed by JSCC.

Article 53-2. Ad Hoc Compression of Cleared Contracts

- 1 If a Clearing Participant desires the Ad Hoc Compression of Cleared Contracts, it shall apply for it to JSCC by giving notice in the method separately prescribed by JSCC⁷⁹.
- 2 If JSCC receives the application for the Ad Hoc Compression of Cleared Contracts from a Clearing Participant in accordance with Paragraph 1, JSCC shall check, in the manner separately prescribed by JSCC⁸⁰, to see if the Cleared Contracts satisfy the requirements separately prescribed by JSCC⁸¹ ("Ad Hoc Compression Conditions"). If such Cleared Contracts satisfy the Ad Hoc Compression Conditions, JSCC and the Clearing Participant shall have the relevant Cleared Contracts terminated as of the time of such confirmation by JSCC.
- 3 In addition to the matters set forth in Paragraphs 1 and 2, matters necessary for the Ad Hoc Compression of Cleared Contracts shall be separately prescribed by JSCC.

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

Article 54. Clearing Brokerage

- 1 When a Customer intends to request a Clearing Broker to act as its Clearing Broker, it shall notify JSCC of the name of the Clearing Participant that will become the counterparty ("Designated Counterparty") to the CDS Transaction which its Clearing Broker executes on its behalf and other matters prescribed by JSCC⁸² in the manner set forth in the Subordinate Rules⁸³.
- 2 The Clearing Broker and the Customer agree in advance that, when the notification given under Paragraph 1 arrives at JSCC, the Customer shall be deemed to have requested the

⁷⁹ cf. Handling Procedures of CDS Clearing Business Rules, Article 38-2.1.

⁸⁰ cf. Handling Procedures of CDS Clearing Business Rules, Article 38-2.3.

⁸¹ cf. Handling Procedures of CDS Clearing Business Rules, Article 38-2.2.

⁸² cf. Handling Procedures of CDS Clearing Business Rules, Article 39.3.

⁸³ cf. Handling Procedures of CDS Clearing Business Rules, Article 39.1.

Clearing Brokerage in respect of the CDS Transaction set forth in Paragraph 1 and the Clearing Broker shall be deemed to have accepted such request at that time.

3 The provisions of Paragraph 2 shall not apply in any of the following events, except for the case where the Clearing Broker executes a Customer's Cleared Contract pursuant to the provisions of Article 55:

- (1) In respect of the notification set forth in Paragraph 1:
 - a. If JSCC has not received a letter of undertaking set forth in Article 42.2 from the Customer submitted such notification, or such letter of undertaking is not effective;
 - b. If new Clearing by the Clearing Broker subject to such notification for the Customer's Cleared Contracts on the book of the relevant Customer has been suspended, either entirely or partially;
 - c. If the Clearing Brokerage Original Transaction which is the subject of such notification fails to satisfy the requirements separately prescribed by JSCC⁸⁴; or
 - d. If such notification fails to meet the conditions separately prescribed by JSCC.
- (2) The contents of the notification set forth in Paragraph 1 are inconsistent with a separate agreement concerning limits on Clearing Brokerage made between a Clearing Broker and the Customer.

4 The notification set forth in Paragraph 1 by a Customer shall be deemed as its declaration, to the Clearing Participant or other Customer who is the counterparty to such Clearing Brokerage Original Transaction (referred to as "Original Counterparty" in this Paragraph and in Article 58), of an agreement to terminate the Clearing Brokerage Original Transaction subject to the instruction to clear through Clearing Brokerage, provided that below listed conditions are met:

- (1) Based on the request and acceptance pursuant to the provisions of Paragraph 2, an Eligible CDS Transaction, identical to the Clearing Brokerage Original Transaction in the terms and conditions as separately prescribed by JSCC⁸⁵, comes into effect between such Clearing Broker and the Original Counterparty or a Clearing Participant acting on behalf of such Original Counterparty;

⁸⁴ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 40.

⁸⁵ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 42.

- (2) The Clearing Broker and the Original Counterparty or a Clearing Participant acting on behalf of the Original Counterparty request Clearing for the Eligible CDS Transaction set forth in Item (1) to JSCC in accordance with the provisions of Article 48; and
- (3) The Clearing set forth in Item (2) becomes effective and the relevant Cleared Contracts come into effect.

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

Article 55. Execution of Cleared Contracts according to Request for Clearing Brokerage

1 When the notification specified in Article 54.1 arrives at JSCC, a CDS Transaction identical, in the terms and conditions prescribed by JSCC⁸⁶, to the Clearing Brokerage Original Transaction shall come into effect between the Clearing Broker who provides Clearing Brokerage services to the Customer and the Designated Counterparty in the manner as separately prescribed by JSCC⁸⁷. In such case, when the Clearing Brokerage is deemed to have been requested and accepted pursuant to Article 54.2, the Clearing Participants to be the parties to the CDS Transaction shall give notification of request for Clearing to JSCC in accordance with the provisions of Article 48 and have the Customer's Cleared Contract with JSCC come into effect.

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

3 In the event of termination of the Clearing Brokerage Contract or in any other event prescribed by JSCC⁸⁸, the Customer's Cleared Contract shall be treated as the Cleared Contract on the proprietary book of the Clearing Participant who is the party to the Customer's Cleared Contract after the point of time separately prescribed by JSCC⁸⁹.

4 If the Clearing Broker acting on behalf of the Customer and the Designated Counterparty are the same entity, for the purpose of the Rules, the Clearing Broker acting in the capacity

⁸⁶ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 42.

⁸⁷ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 41.1.

⁸⁸ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 43.1.

⁸⁹ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 43.2.

of the Designated Counterparty shall be deemed as a separate Clearing Participant.

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

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

- 1 All profits and losses resulting from Customer's Cleared Contracts shall attribute to the Customer.
- 2 When a Clearing Broker receives the Fixed Amount or any other Funds, other than Margin, from JSCC in respect of any Customer's Cleared Contract, such Clearing Broker shall deliver such Funds to the relevant Customer.
- 3 When a Clearing Broker owes obligations to pay Funds to JSCC in respect of any Customer's Cleared Contract, the Customer shall pay such Funds to the relevant Clearing Broker.
- Funds referred to in the preceding sentence do not include Margin, the Special Clearing Charge Collateral, clearing fees, and the Special Clearing Charge.

Article 57. Customer's Instruction relating to Customer's Cleared Contracts

- 1 A Customer may give instruction to apply for the Compression or the Ad Hoc Compression in respect of Cleared Contracts, or other instruction, to the Clearing Broker in the manner prescribed in the Rules and the Clearing Brokerage Agreement.
- 2 When a Customer intends to instruct the Clearing Broker to apply for the Compression or the Ad Hoc Compression, it shall notify such effect to JSCC in the method prescribed by JSCC⁹⁰.
- 3 The Clearing Broker and the Customer shall agree in advance that, when the notification

⁹⁰ cf. Handling Procedures of CDS Clearing Business Rules, Article 43-2.

set forth in Paragraph 2 arrives at JSCC, the Customer shall be deemed to have given instruction to the Clearing Broker to apply for the Compression or the Ad Hoc Compression, and the Clearing Broker shall be deemed to have made application, at that time.

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

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

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

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

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

Section 4 Position Transfer/Transfer of Cleared Contracts (Articles 58-2 – 58-5)

Article 58-2. Request for Position Transfer/Transfer of Proprietary Cleared Contracts

1 With respect to all or a part of Proprietary Cleared Contracts existing between a Clearing Participant and JSCC, the Clearing Participant may conduct:

- (1) Position Transfer of Proprietary Cleared Contracts to Successor Clearing Broker;

- (2) Transfer of Proprietary Cleared Contracts to its Customer; or
- (3) Transfer of Proprietary Cleared Contracts to a Customer for whom another Clearing Participant is acting as Clearing Broker.

2 When conducting Position Transfer or Transfer of Proprietary Cleared Contracts pursuant to the provisions of Paragraph 1, the Clearing Participant shall ask the relevant party or parties listed below to accept such Position Transfer or Transfer, and shall obtain its or their consent(s) in advance:

- (1) In case of Position Transfer of Proprietary Cleared Contracts under Paragraph 1.(1): Successor Clearing Broker;
- (2) In case of Transfer of Proprietary Cleared Contracts under Paragraph 1.(2): Receiving Customer; or
- (3) In case of Transfer of Proprietary Cleared Contracts under Paragraph 1.(3): Receiving Customer and its Clearing Broker.

3 When Position Transfer or Transfer of Proprietary Cleared Contracts is requested and consented pursuant to the provisions of Paragraph 2, the relevant Clearing Participant in each case listed below shall submit a request to JSCC in a manner prescribed by JSCC⁹¹:

- (1) In case of Position Transfer of Proprietary Cleared Contracts under Paragraph 1.(1): Successor Clearing Broker and Carrying Clearing Broker;
- (2) In case of Transfer of Proprietary Cleared Contracts under Paragraph 1.(2): Transferring Clearing Participant; or
- (3) In case of Transfer of Proprietary Cleared Contracts under Paragraph 1.(3): Receiving Customer's Clearing Broker and Transferring Clearing Participant.

4 The Clearing Participant and the relevant party (or parties) listed in Paragraph 2 shall agree in advance that upon submission of the request set forth in Paragraph 3, they shall be deemed to have agreed to such Position Transfer or Transfer, as the case may be.

⁹¹ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 43-3.

- 5 When canceling a request made pursuant to the provisions of Paragraph 3, the relevant Clearing Participant responsible for submission of the request under Paragraph 3 shall submit a request for the cancellation to JSCC in a manner prescribed by JSCC⁹².

Article 58-3. Completion of Position Transfer/Transfer of Proprietary Cleared Contracts

- 1 Upon receipt of the request for Position Transfer or Transfer made in accordance with the provisions of Article 58-2, JSCC shall accept the request for such Position Transfer or Transfer, if JSCC can confirm that the Proprietary Cleared Contracts effectively exist between the relevant party listed below according to each applicable case and JSCC judges that there is no specific issue in position holding status after Position Transfer or Transfer:

- (1) In case of Position Transfer of Proprietary Cleared Contracts under Article 58-2.1.(1):
Carrying Clearing Broker; and
- (2) In case of Transfer of Proprietary Cleared Contracts under Article 58-2.1.(2) or Article 58-2.1(3): Transferring Clearing Participant.

- 2 Position Transfer or Transfer of Proprietary Cleared Contracts under Article 58-2.1 shall come into effect at the time when JSCC accepts the request therefor pursuant to the provisions of Paragraph 1.

- 3 When Position Transfer or Transfer of Proprietary Cleared Contracts becomes effective pursuant to the provisions of Paragraph 2, Position Transfer or Transfer shall come into effect in the manner set forth below according to each case:

- (1) In case of Position Transfer of Proprietary Cleared Contracts under Article 58-2.1.(1):
 - a. Giving Rise to Claims and Obligations and Coming into Effect of Legal Relationship

The claims and obligations that are identical, in terms and conditions separately designated by JSCC⁹³, to the claims and obligations under the Position Transfer Requested Cleared Contracts existed immediately before their termination pursuant to Sub-Item b. below between the Carrying Clearing Broker and JSCC arise between JSCC and the Successor Clearing Broker. In this case, the provisions of the Rules shall apply to said claims and obligations as if such claims and obligations are the Proprietary Cleared Contracts between the

⁹² *cf.* Handling Procedures of CDS Clearing Business Rules, Article 43-3.

⁹³ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 38-4.

Successor Clearing Broker and JSCC;

b. Claims and Obligations Cease to Exist

The Position Transfer Requested Cleared Contracts shall terminate as the matter of course as of the time when the claims and obligations set forth in Sub-Item a. above come into effect, and the claims and obligations under the relevant Position Transfer Requested Cleared Contracts shall cease to exist and have no future effect; and

c. Payment/Receipt of Cash

JSCC shall calculate the amount due upon Position Transfer/Transfer and the Early Termination Charge in a manner prescribed by JSCC⁹⁴, and JSCC, the Successor Clearing Broker and the Carrying Clearing Broker shall pay or receive the amount due upon Position Transfer/Transfer, the Early Termination Charge and Variation Margin in a manner prescribed by JSCC⁹⁵.

(2) In case of Transfer of Proprietary Cleared Contracts under Article 58-2.1.(2):

The legal relationship with the same economic effect as the Proprietary Cleared Contracts subject to Transfer shall come into effect between the Receiving Customer and the Transferring Clearing Participant. In this case, the provisions of the Rules shall apply by regarding said legal relationship as Clearing Brokerage Contracts executed through commission of Clearing Brokerage by the Receiving Customer to the Transferring Clearing Participant and by regarding the Proprietary Cleared Contracts subject to Transfer as the Customer's Cleared Contracts corresponding to such Clearing Brokerage Contracts;

(3) In case of Transfer of Proprietary Cleared Contracts under Article 58-2.1.(3):

a. Giving Rise to Claims and Obligations and Coming into Effect of Legal Relationship

(a) The legal relationship with the same economic effect as the Proprietary Cleared Contracts subject to Transfer shall come into effect between the Receiving Customer and its Clearing Broker. In this case, said legal relationship shall be deemed as Clearing Brokerage Contracts coming into effect through a commission of Clearing Brokerage by the Receiving Customer to its Clearing Broker;

(b) The claims and obligations that are identical, in terms and conditions

⁹⁴ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 38-3.1.

⁹⁵ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 52.(11).

separately designated by JSCC⁹⁶, to the claims and obligations under the Proprietary Cleared Contracts Transfer arise between the Receiving Customer's Clearing Broker and JSCC. In this case, the provisions of the Rules shall apply to such claims and obligations as if such claims and obligations are the Customer's Cleared Contracts corresponding to the Clearing Brokerage Contracts that have come into effect under (a) above;

b. Claims and Obligations Cease to Exist

At the same timing as the legal relationship comes into effect under Sub-Item a. (a) above, the Proprietary Cleared Contracts subject to Transfer shall terminate as the matter of course and the claims and obligations thereunder shall cease to exist and have no future effect; and

c. Payment/Receipt of Cash

JSCC shall calculate the amount due upon Position Transfer/Transfer and the Early Termination Charge in a manner prescribed by JSCC⁹⁷, and, in association with giving rise to the claims and obligations under the provisions of Sub-Item a.(b) and the termination of the Proprietary Cleared Contracts under the provisions of Sub-Item b. above, JSCC, the Transferring Clearing Participant and the Receiving Customer's Clearing Broker shall pay or receive the amount due upon Position Transfer/Transfer, the Early Termination Charge and Variation Margin in a manner prescribed by JSCC⁹⁸.

4 The settlement of claims and obligations between the Transferring Clearing Participant and the Receiving Customer (or between the Transferring Clearing Participant, the Receiving Customer and its Clearing Broker in case of Transfer of Proprietary Cleared Contracts under Article 58-2.1.(3)) required in association with Transfer of Proprietary Cleared Contracts shall be performed between the relevant parties in accordance with their agreements.

Article 58-4. Request for Position Transfer/Transfer of Customer's Cleared Contracts

1 A Customer with respect to whom no Event of Default set forth in the Clearing Brokerage Agreement has occurred may conduct Position Transfer or Transfer as listed below with respect to all or a part of Customer's Cleared Contracts existing on its book and the Clearing Brokerage Contracts existing between such Customer and its Clearing Broker:

⁹⁶ cf. Handling Procedures of CDS Clearing Business Rules, Article 38-4.

⁹⁷ cf. Handling Procedures of CDS Clearing Business Rules, Article 38-3.4.

⁹⁸ cf. Handling Procedures of CDS Clearing Business Rules, Article 52.(11).

- (1) Position Transfer of Customer's Cleared Contracts to Successor Clearing Broker which has executed a Clearing Brokerage Agreement with the Customer to be the party to Position Transfer;
- (2) Transfer of Clearing Brokerage Contracts to its Clearing Broker;
- (3) Transfer of Clearing Brokerage Contracts to another Customer of its Clearing Broker;
- (4) Transfer of Clearing Brokerage Contracts to a Clearing Participant which is not its Clearing Broker; or
- (5) Transfer of Clearing Brokerage Contracts to a Customer of a Clearing Broker other than the Clearing Broker for the Transferring Customer.

2 When conducting Position Transfer of Customer's Cleared Contracts or Transfer of Clearing Brokerage Contracts pursuant to the provisions of Paragraph 1, the Customer shall ask the relevant party or parties listed below to accept such Position Transfer or Transfer, and shall obtain its or their consent(s) in advance:

- (1) In case of Position Transfer of Customer's Cleared Contracts under Paragraph 1.(1): Carrying Clearing Broker and Successor Clearing Broker;
- (2) In case of Transfer of Clearing Brokerage Contracts under Paragraph 1.(2): Receiving Clearing Participant;
- (3) In case of Transfer of Clearing Brokerage Contracts under Paragraph 1.(3): Receiving Customer and its Clearing Broker;
- (4) In case of Transfer of Clearing Brokerage Contracts under Paragraph 1.(4): Transferring Customer's Clearing Broker and Receiving Clearing Participant; or
- (5) In case of Transfer of Clearing Brokerage Contracts under Paragraph 1.(5): Transferring Customer's Clearing Broker, Receiving Customer and its Clearing Broker.

3 When Position Transfer of Customer's Cleared Contracts or Transfer of Clearing Brokerage Contracts is requested and consented pursuant to the provisions of Paragraph 2, the

relevant Clearing Participant in each case listed below shall submit a request for Position Transfer or Transfer to JSCC in a manner prescribed by JSCC⁹⁹:

- (1) In case of Position Transfer of Customer's Cleared Contracts under Paragraph 1.(1): Successor Clearing Broker and Carrying Clearing Broker;
- (2) In case of Transfer of Clearing Brokerage Contracts under Paragraph 1.(2): Receiving Clearing Participant;
- (3) In case of Transfer of Clearing Brokerage Contracts under Paragraph 1.(3): Receiving Customer's Clearing Broker;
- (4) In case of Transfer of Clearing Brokerage Contracts under Paragraph 1.(4): Transferring Customer's Clearing Broker and Receiving Clearing Participant; and
- (5) In case of Transfer of Clearing Brokerage Contracts under Paragraph 1.(5): Transferring Customer's Clearing Broker and Receiving Customer's Clearing Broker.

4 The Customer and the relevant party (or parties) listed in Paragraph 2 shall agree in advance that upon submission of the request of Position Transfer or Transfer set forth in Paragraph 3, they shall be deemed to have agreed to such Position Transfer or Transfer, as the case may be.

5 When canceling a request for Position Transfer or Transfer made pursuant to the provisions of Paragraph 3, the relevant Clearing Participant responsible for submission of a request under Paragraph 3 shall submit a request for the cancellation to JSCC in a manner prescribed by JSCC¹⁰⁰.

Article 58-5. Completion of Position Transfer of Customer's Cleared Contracts or Transfer of Clearing Brokerage Contracts

- 1 Upon receipt of the request for Position Transfer or Transfer made in accordance with the provisions of Article 58-4, JSCC shall accept the request for such Position Transfer or Transfer, if JSCC can confirm that the Clearing Brokerage Contracts effectively exist between the the Transferring Customer and its Clearing Broker and JSCC judges that there is no specific issue in position holding status after Position Transfer or Transfer.

⁹⁹ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 43-3.

¹⁰⁰ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 43-3.

2 Position Transfer of Customer's Cleared Contracts or Transfer of Clearing Brokerage Contracts under Article 58-4.1 shall come into effect at the time when JSCC accepts the request therefor pursuant to the provisions of Paragraph 1.

3 When Position Transfer of Customer's Cleared Contracts or Transfer of Clearing Brokerage Contracts comes into effect pursuant to the provisions of Paragraph 2, it shall come into effect in the manner set forth below according to each case:

(1) In case of Position Transfer of Customer's Cleared Contracts under Article 58-4.1.(1):

a. Giving Rise to Claims and Obligations and Coming into Effect of Legal Relationship

(a) The claims and obligations that are identical, in terms and conditions separately designated by JSCC¹⁰¹, to the claims and obligations under the Position Transfer Requested Cleared Contracts existed immediately before their termination pursuant to Sub-Item b. below between the Carrying Clearing Broker and JSCC arise between JSCC and the Successor Clearing Broker. In this case, the provisions of the Rules shall apply to said claims and obligations as if such claims and obligations are the Customer's Cleared Contracts the Successor Clearing Broker executed on that Customer's book through Clearing Brokerage at the time of the termination of the Position Transfer Requested Cleared Contracts;

(b) The claims and obligations that are identical, in terms and conditions separately designated by JSCC¹⁰², to the claims and obligations under the Clearing Brokerage Contracts between the Customer and the Carrying Clearing Broker existed immediately before the termination of the Clearing Brokerage Contracts corresponding to the Position Transfer Requested Cleared Contracts pursuant to Sub-Item b. below arise between the Customer and the Successor Clearing Broker. In this case, said claims and obligations shall be deemed as claims and obligations under the Clearing Brokerage Contracts corresponding to the Cleared Contracts deemed as Customer's Cleared Contracts pursuant to the provisions of (a) above;

b. Claims and Obligations Cease to Exist

The Position Transfer Requested Cleared Contracts and the Clearing Brokerage Contracts corresponding thereto shall terminate as the matter of course at the same timing as the claims and obligations set forth in Sub-Item a. arise, and the claims and obligations under the Position Transfer Requested Cleared Contracts and the Clearing Brokerage Contracts corresponding thereto shall cease to exist

¹⁰¹ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 38-5.

¹⁰² *cf.* Handling Procedures of CDS Clearing Business Rules, Article 38-5.

and have no future effect; and

c. Payment/Receipt of Cash

JSCC shall calculate the amount due upon Position Transfer/Transfer and the Early Termination Charge in a manner prescribed by JSCC¹⁰³, and, in association with giving rise to claims and obligations under Sub-Item a. and the termination of the Position Transfer Requested Cleared Contracts under Sub-Item b., JSCC, the Successor Clearing Broker, the Carrying Clearing Broker and the Customer shall pay or receive the amount due upon Position Transfer/Transfer, the Early Termination Charge and Variation Margin in a manner prescribed by JSCC¹⁰⁴.

- (2) In case of Transfer of Clearing Brokerage Contracts under Article 58-4.1.(2):
As between the Transferring Customer and its Clearing Broker, the Clearing Brokerage Contracts subject to Transfer shall terminate as the matter of course and the claims and obligations thereunder shall cease to exist and have no future effect. In this case, the provisions of the Rules shall apply to the Customer's Cleared Contracts corresponding to the Clearing Brokerage Contracts to terminate as if they are the Proprietary Cleared Contracts of the Receiving Clearing Participant;
- (3) In case of Transfer of Clearing Brokerage Contracts under Article 58-4.1.(3):
 - a. Giving Rise to Claims and Obligations and Coming into Effect of Legal Relationship
The legal relationship identical to the Clearing Brokerage Contracts subject to Transfer shall arise between the Receiving Customer and its Clearing Broker. In this case, said legal relationship shall be regarded as Clearing Brokerage Contracts executed through commission of Clearing Brokerage by the Receiving Customer to its Clearing Broker;
 - b. Claims and Obligations Cease to Exist
As between the Transferring Customer and its Clearing Broker, the Clearing Brokerage Contracts subject to Transfer shall terminate as the matter of course and the claims and obligations thereunder shall cease to exist and have no future effect. In this case, the provisions of the Rules shall apply by regarding the Customer's Cleared Contracts corresponding to the Clearing Brokerage Contracts to terminate as the Customer's Cleared Contracts executed on the book of the Receiving Customer;

¹⁰³ cf. Handling Procedures of CDS Clearing Business Rules, Article 38-3.3.

¹⁰⁴ cf. Handling Procedures of CDS Clearing Business Rules, Article 52.(11).

(4) In case of Transfer of Clearing Brokerage Contracts under Article 58-4.1.(4):

a. Giving Rise to Claims and Obligations and Coming into Effect of Legal Relationship

The claims and obligations that are identical, in terms and conditions separately designated by JSCC¹⁰⁵, to the claims and obligations under the Customer's Cleared Contracts to terminate pursuant to the provisions of Sub-Item b. below shall arise between the Receiving Clearing Participant and JSCC. In this case, the provisions of the Rules shall apply to said claims and obligations as if such claims and obligations are the Proprietary Cleared Contracts of the Receiving Clearing Participant;

b. Claims and Obligations Cease to Exist

As between the Transferring Customer and its Clearing Broker, the Clearing Brokerage Contracts subject to Transfer and Customer's Cleared Contracts corresponding thereto shall terminate as the matter of course, and the claims and obligations under such Clearing Brokerage Contracts shall cease to exist and have no future effect; and

c. Payment/Receipt of Cash

JSCC shall calculate the amount due upon Position Transfer/Transfer and the Early Termination Charge in a manner prescribed by JSCC¹⁰⁶, and, in association with giving rise to the claims and obligations under Sub-Item a. and the termination of Customer's Cleared Contracts under Sub-Item b., JSCC, the Transferring Customer's Clearing Broker and the Receiving Clearing Participant shall pay or receive the amount due upon Position Transfer/Transfer, the Early Termination Charge and Variation Margin in a manner prescribed by JSCC¹⁰⁷;

(5) In case of Transfer of Clearing Brokerage Contracts under Article 58-4.1.(5):

a. Giving Rise to Claims and Obligations and Coming into Effect of Legal Relationship:

(a) The legal relationship identical to the Clearing Brokerage Contracts subject to Transfer shall arise between the Receiving Customer and its Clearing Broker. In this case, said legal relationship shall be regarded as Clearing Brokerage Contracts executed through commission of Clearing Brokerage by the Receiving Customer to its Clearing Broker;

(b) The claims and obligations that are identical, in terms and conditions separately

¹⁰⁵ cf. Handling Procedures of CDS Clearing Business Rules, Article 43-4.

¹⁰⁶ cf. Handling Procedures of CDS Clearing Business Rules, Article 38-3.3.

¹⁰⁷ cf. Handling Procedures of CDS Clearing Business Rules, Article 52.(11).

designated by JSCC¹⁰⁸, to the claims and obligations under the Customer's Cleared Contracts to terminate pursuant to the provisions of Sub-Item b. below shall arise between the Receiving Customer's Clearing Broker and JSCC. In this case, the provisions of the Rules shall apply by regarding said claims and obligations as the Customer's Cleared Contracts executed on the book of the Receiving Customer;

b. Claims and Obligations Cease to Exist:

As between the Transferring Customer and its Clearing Broker, the Clearing Brokerage Contracts subject to Transfer and Customer's Cleared Contracts corresponding thereto shall terminate as the matter of course and the claims and obligations under such Clearing Brokerage Contracts shall cease to exist and have no future effect; and

c. Payment/Receipt of Cash

JSCC shall calculate the amount due upon Position Transfer/Transfer and the Early Termination Charge in a manner prescribed by JSCC¹⁰⁹, and, in association with giving rise to the claims and obligations under Sub-Item a. and the termination of Customer's Cleared Contracts under Sub-Item b., JSCC, the Transferring Customer's Clearing Broker and the Receiving Customer's Clearing Broker shall pay or receive the amount due upon Position Transfer/Transfer, the Early Termination Charge and Variation Margin in a manner prescribed by JSCC¹¹⁰.

- 4 The settlement of claims and obligations between the Transferring Customer and its Clearing Broker (or between the Transferring Customer, its Clearing Broker and the Receiving Clearing Participant in case of Transfer of Clearing Brokerage Contracts under Article 58-4.1.(4) or between the Transferring Customer, its Clearing Broker, the Receiving Customer and its Clearing Broker in case of Transfer of Clearing Brokerage Contracts under Article 58-4.1.(5)) required in association with Transfer of Clearing Brokerage Contracts shall be performed between the relevant parties in accordance with their agreements.

Chapter 5 Clearing Participant Account (Articles 59- 60)

Article 59. Clearing Participant Account

- 1 To manage Initial Margin, Variation Margin and cash paid or received at the Settlement, in

¹⁰⁸ cf. Handling Procedures of CDS Clearing Business Rules, Article 43-4.

¹⁰⁹ cf. Handling Procedures of CDS Clearing Business Rules, Article 38-3.3.

¹¹⁰ cf. Handling Procedures of CDS Clearing Business Rules, Article 52.(11).

respect of each Cleared Contract to which each Clearing Participant is a party and other Funds to be paid or received in respect of such Cleared Contract between JSCC and each Clearing Participant in accordance with the Rules, JSCC shall set up an account for each Clearing Participant ("Clearing Participant Account") on which each of such Cleared Contracts is recorded.

- 2 A Clearing Participant Account shall be divided into the account to record the Cleared Contracts on a Clearing Participant's proprietary book ("Proprietary Account") and the accounts to record, by each Clearing Brokerage Agreement, the Cleared Contracts on Customers' book ("Customer Accounts"). For this purpose, JSCC may not use one Customer Account for multiple Customers or for multiple Clearing Brokerage Agreements of one Customer.
- 3 JSCC may set up a Proprietary Account or multiple Customer Accounts for a Clearing Participant when requested by such Clearing Participant.
- 4 JSCC may divide the Proprietary Account set up for a Clearing Participant into multiple accounts when requested by such Clearing Participant.
- 5 A Clearing Participant shall, if it opens multiple accounts which divide a Clearing Brokerage Account pursuant to the provisions of Article 60.2, request that JSCC divide a Customer Account in the same manner, and JSCC shall set up multiple accounts to divide the Customer Account based on such request.
- 6 For multiple accounts which are set for the Proprietary Account or Customer Accounts in accordance with Paragraphs 3 and 4 ("Sub-Accounts"), JSCC shall book Cleared Contracts to the relevant Sub-Account according to the designations made by the relevant Clearing Participant.
- 7 The claims and obligations between JSCC and a Clearing Participant and the claims and obligations between JSCC and a Customer in relation to each Cleared Contract and Initial Margin and Variation Margin related thereto shall arise separately for the Proprietary Account and each of the Customer Accounts.

Article 59-2. Transfer of Proprietary Cleared Contracts between Sub-Accounts

- 1 A Clearing Participant may move all or a part of the Proprietary Cleared Contracts existing between JSCC and the Clearing Participant booked on a Sub-Account to another Sub-Account under the same Proprietary Account.

- 2 When a Clearing Participant moves Proprietary Cleared Contracts as set forth in Paragraph 1, it shall request it to JSCC in a manner prescribed by JSCC¹¹¹.
- 3 Upon receipt of the request set forth in Paragraph 2, JSCC shall process the transfer of Proprietary Cleared Contracts between Sub-Accounts at the time prescribed by JSCC¹¹² on the JSCC Business Day on which such request is submitted.
- 4 When canceling the request submitted pursuant to the provisions of Paragraph 2, the Clearing Participant shall request the cancellation to JSCC in a manner prescribed by JSCC¹¹³.

Article 59-3. Transfer of Customer's Cleared Contracts between Sub-Accounts

- 1 A Customer may move all or a part of the Customer's Cleared Contracts booked on a Sub-Account to another Sub-Account under the same Customer Account.
- 2 When intending to instruct a transfer of Customer's Cleared Contracts between Sub-Accounts as set forth in Paragraph 1, the Customer shall notify such effect to its Clearing Broker, who, upon receipt of such instruction, shall submit the request for such transfer to JSCC in a manner prescribed by JSCC¹¹⁴.
- 3 Upon receipt of the request set forth in Paragraph 2, JSCC shall process the transfer of Customer's Cleared Contracts between Sub-Accounts at the time prescribed by JSCC¹¹⁵ on the JSCC Business Day on which such request is submitted.
- 4 When canceling the request submitted pursuant to the provisions of Paragraph 2, the Customer shall notify such effect to its Clearing Broker, who, upon receipt of such notification, shall request the cancellation to JSCC in a manner prescribed by JSCC¹¹⁶.

Article 60. Clearing Brokerage Account

- 1 A Clearing Broker shall set up an account for each Clearing Brokerage Agreement executed with a Customer ("Clearing Brokerage Account") to manage the details of Clearing Brokerage Contracts under each Clearing Brokerage Agreement, Initial Margins, Customer

¹¹¹ cf. Handling Procedures of CDS Clearing Business Rules, Article 43-5.1.

¹¹² cf. Handling Procedures of CDS Clearing Business Rules, Article 43-5.2.

¹¹³ cf. Handling Procedures of CDS Clearing Business Rules, Article 43-5.1.

¹¹⁴ cf. Handling Procedures of CDS Clearing Business Rules, Article 43-5.1.

¹¹⁵ cf. Handling Procedures of CDS Clearing Business Rules, Article 43-5.2.

¹¹⁶ cf. Handling Procedures of CDS Clearing Business Rules, Article 43-5.1.

Initial Margins, Variation Margins and Funds paid or received at the Settlement of Customer's Cleared Contract related to such Clearing Brokerage Contracts and other Funds to be paid and/or received between the Clearing Broker and the Customer in accordance with each of such Clearing Brokerage Agreements and the Rules.

- 2 Upon request of a Customer, a Clearing Broker may set up multiple accounts dividing the Clearing Brokerage Account for the Customer (each of such account is referred to as "Clearing Brokerage Sub-Account" in this Article).
- 3 The claims and obligations between a Clearing Broker and a Customer in relation to each Clearing Brokerage Contract and Initial Margin and Variation Margin related thereto shall arise separately for each of the Clearing Brokerage Accounts.
- 4 When there is a transfer of Customer's Cleared Contracts between Sub-Accounts under a Customer Account pursuant to the provisions of Article 59-3, the Clearing Broker shall transfer the Clearing Brokerage Contracts corresponding to the Customer's Cleared Contracts subject to the transfer between Sub-Accounts to the relevant sub-account under the Clearing Brokerage Account accordingly.

Chapter 6 Margin

Section 1 General Provisions (Articles 61 – 62)

Article 61. Purpose of Margin

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

- (1) Initial Margin:

Obligations that a Clearing Participant owes to JSCC in relation to Cleared Contracts, including the obligation arising out of termination of such Cleared Contracts, and obligations that a Customer owes to a Clearing Broker in relation to Clearing Brokerage Contracts, including the obligation arising out of termination of such Cleared Contracts;

- (2) Customer Initial Margin:

The obligations that a Customer owes to a Clearing Broker in relation to a Clearing Brokerage Contract, including the obligation arising out of termination of such Clearing Brokerage Contract;

- (3) Variation Margin paid or received between JSCC and each Clearing Participant in relation to Proprietary Cleared Contracts:

Obligations that a Clearing Participant owes to JSCC in relation to Proprietary Cleared Contracts or obligations that JSCC owes to a Clearing Participant in relation to Proprietary Cleared Contracts;

- (4) Variation Margin paid or received between JSCC and each Clearing Broker in relation to Customer's Cleared Contracts:

Obligations that a Clearing Broker owes to JSCC in relation to Customer's Cleared Contracts or obligations that JSCC owes to a Clearing Broker in relation to Customer's Cleared Contracts;

- (5) Variation Margin paid or received between a Clearing Broker and a Customer in relation to a Clearing Brokerage Contracts:

Obligations that a Customer owes to a Clearing Broker in relation to Clearing Brokerage Contracts or obligations that a Clearing Broker owes to a Customer in relation to Clearing Brokerage Contracts.

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

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

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

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

Brokerage Agreement.

Section 2 Initial Margin (Articles 63 – 72)

Article 63. Obligation to Deposit Initial Margin

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

(1) Proprietary Cleared Contract

When a Proprietary Cleared Contract comes into effect, a Clearing Participant shall deposit with JSCC cash or Eligible Securities Collateral in an amount not less than the Required Initial Margin in relation to a Proprietary Cleared Contract as Initial Margin.

(2) Customer's Cleared Contract

a. When a Customer's Cleared Contract comes into effect, a Customer shall deposit with JSCC cash or Eligible Securities Collateral in an amount not less than the Required Initial Margin in relation to the Customer's Cleared Contracts for such Customer as Initial Margin. If the Clearing Broker and the Customer separately agree otherwise, the amount to be deposited shall be the amount calculated based on such agreement or the Required Initial Margin, whichever is larger (the same rule shall apply hereinafter).

b. Deposit of Initial Margin by a Customer with JSCC pursuant to a. above shall be made through a Clearing Broker prescribed in a. above acting as its agent in accordance with the provisions of Article 68.

c. When a Customer deposits the Customer Initial Margin with a Clearing Broker in accordance with Article 68, the amount of such Customer Initial Margin shall be deducted from the Required Initial Margin to be deposited with JSCC by such Customer. In such case, the Clearing Broker shall deposit with JSCC, as Substituted Initial Margin, cash or Eligible Securities Collateral in an amount not less than the Customer Initial Margin deposited by the Customer with such Clearing Broker.

Article 64. Required Initial Margin for Clearing Participant

1 JSCC shall calculate the Required Initial Margin for a Clearing Participant in relation to

Proprietary Cleared Contracts and Customer's Cleared Contracts respectively on each JSCC Business Day in the manner separately prescribed by JSCC¹¹⁷.

- 2 The Required Initial Margin in respect of Proprietary Cleared Contracts shall be the sum total of the amounts calculated for each Proprietary Account, or, when the Proprietary Account is divided into multiple Sub-Accounts, the sum of the amounts calculated for each Sub-Account.
- 3 The Required Initial Margin in respect of Customer's Cleared Contracts for each Customer Account shall be the amount calculated for the relevant Customer Account, or, when a Customer Account is divided into multiple Sub-Accounts, the sum of the amounts calculated for each Sub-Account.
- 4 JSCC shall notify each Clearing Participant of the calculated Required Initial Margin in the manner separately prescribed by JSCC¹¹⁸.

Article 65. Required Initial Margin for Customer

- 1 The Required Initial Margin for a Customer shall be the amount calculated by JSCC in the manner separately prescribed by JSCC¹¹⁹ for the Customer Account, or, when a Customer Account is divided into multiple Sub-Accounts, the sum of the amounts calculated for each Sub-Account.
- 2 Clearing Broker shall promptly notify the Customer of the Required Initial Margin for such Customer calculated by JSCC pursuant to Paragraph 1.

Article 66. Cutoff Time for Deposit of Initial Margin

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

¹¹⁷ cf. Handling Procedures of CDS Clearing Business Rules, Article 44.1.

¹¹⁸ cf. Handling Procedures of CDS Clearing Business Rules, Article 44.2.

¹¹⁹ cf. Handling Procedures of CDS Clearing Business Rules, Article 44.1.

second JSCC Business Day following the date of occurrence of such shortfall.

Article 67. Method of Deposit of Initial Margin

Initial Margins shall be deposited with JSCC in the manner separately prescribed by JSCC¹²⁰.

Article 68. Deposit of Initial Margin by Customer

- 1 A Customer shall deliver cash or Eligible Securities Collateral in an amount not less than the Required Initial Margin to be deposited with JSCC to a Clearing Broker as Initial Margin in accordance with the Clearing Brokerage Agreement.
- 2 The Clearing Broker shall deposit with JSCC all of cash and/or Eligible Securities Collateral delivered as Initial Margin by the Customer pursuant to the provisions of Paragraph 1 as an agent of such Customer.
- 3 A Clearing Broker shall conduct separate management of the cash and Eligible Securities Collateral delivered by Customers as Initial Margin by preparing separate books and records for each Clearing Brokerage Account.
- 4 When the sum of the amount of cash and the appraisal value of the Eligible Securities Collateral delivered to a Clearing Broker by a Customer as Initial Margin is less than the Required Initial Margin to be deposited with JSCC by such Customer, such Clearing Broker shall deposit with JSCC the cash or Eligible Securities Collateral in an amount not less than the amount equal to such shortfall from its own fund by the date and time prescribed in Article 66.1.
- 5 The cash or Eligible Securities Collateral deposited with JSCC by the Clearing Broker from its own fund pursuant to Paragraph 4 shall be regarded as Substituted Initial Margin.

Article 69. Substituted Deposit

- 1 A Clearing Broker may accept deposit of cash or Eligible Securities Collateral by a Customer as Customer Initial Margin for Customer's Cleared Contracts with the consent of such Customer.
- 2 When a Customer deposits with a Clearing Broker cash or Eligible Securities Collateral as Customer Initial Margin, such Clearing Broker shall deposit with JSCC, as Substituted

¹²⁰ cf. Handling Procedures of CDS Clearing Business Rules, Article 22.1.

Initial Margin, cash or Eligible Securities Collateral, from its own funds, in an amount not less than the amount of cash or the appraisal value of Eligible Securities Collateral deposited by the Customer with the Clearing Broker.

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

Article 70. Intraday Deposit of Initial Margin

- 1 Notwithstanding the provisions of Article 64 through Article 66, when a range of fluctuation in the CDS Transaction market exceeds the threshold separately prescribed by JSCC¹²¹ or otherwise JSCC deems it necessary to secure appropriate operation of the CDS Clearing Business, JSCC may require Clearing Participants to make an intraday deposit of Initial Margin in the manner separately prescribed by JSCC.

- 2 When JSCC requires an intraday deposit of Initial Margin by Clearing Participants pursuant to the provisions of Paragraph 1, the Clearing Participant shall deposit with JSCC cash or Eligible Securities Collateral in an amount not less than the difference between the intraday Required Initial Margin and the sum of the cash and the appraisal value of the Eligible Securities Collateral deposited with JSCC as Initial Margin ("Required Additional Deposit Amount") as Initial Margin for the Proprietary Cleared Contracts by 3:00 p.m. on the date of such request.

- 3 JSCC shall calculate the intraday Required Initial Margin in the manner separately prescribed by JSCC¹²² based on the market price of CDS Transaction as of the time separately designated by JSCC¹²³.

- 4 Notwithstanding the provisions of Paragraph 2, if the Required Additional Deposit Amount of a Clearing Participant is less than the amount prescribed by JSCC¹²⁴, that Clearing Participant bears no obligation to deposit Initial Margin pursuant to the provisions of Paragraph 2.

Article 71. Classification and Management Method of Initial Margin

- 1 When depositing cash or Eligible Securities Collateral as Initial Margin with JSCC, the

¹²¹ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 45.1.

¹²² *cf.* Handling Procedures of CDS Clearing Business Rules, Article 45.4.

¹²³ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 45.3.

¹²⁴ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 45.5.

Clearing Participant shall deposit such cash or Eligible Securities Collateral separately according to the below listed classifications:

- (1) Initial Margin for Proprietary Cleared Contract;
 - (2) Initial Margin for Customer's Cleared Contract of each Customer to be deposited by a Clearing Participant acting as an agent of a Customer; and
 - (3) Initial Margin for Customer's Cleared Contract of each Customer to be deposited by a Clearing Participant as Substituted Initial Margin.
- 2 JSCC shall manage cash or Eligible Securities Collateral deposited by a Clearing Participant as Initial Margin separately according to the classifications prescribed in Paragraph 1.
- 3 With respect to the Substituted Initial Margin described in Paragraph 1.(3), a Clearing Participant shall report to JSCC, on each JSCC Business Day, the amount of Customer Initial Margin in the form of cash, and the total amount of the appraisal values of Eligible Securities Collateral deposited as Customer Initial Margin by the Customer with the Clearing Participant. JSCC shall separately monitor the difference between the amount of cash and the appraisal value of Eligible Securities Collateral deposited as Customer Initial Margin and the amount of the Substituted Initial Margin.

Article 72. Right to Claim Return of Initial Margin

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

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

Notwithstanding the foregoing, in case the amount calculated above as Customer's claim exceeds the sum of Initial Margin and Substituted Initial Margin less the outstanding obligation of the Customer owed to its Clearing Broker in respect of that Customer's Clearing Brokerage Contracts (including any outstanding obligation arising in association with liquidation of the Customer's Cleared Contracts as a result of the Default of the Clearing Broker), the Customer's claim shall not cover such excess amount; and

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

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

b-2: the amount of Initial Margin which said Customer shall have the right to reclaim under a. above.

(2) Initial Margin for Proprietary Cleared Contracts

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

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

3 In addition to the case prescribed in Paragraph 2, a Customer may claim the return of Initial Margin as set forth in the Rules¹²⁵.

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

¹²⁵ cf. Handling Procedures of CDS Clearing Business Rules, Article 46.1.

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

Section 3 Variation Margin (Articles 73 – 79)

Article 73. Payment and Receipt of Variation Margin

JSCC and a Clearing Participant shall pay or receive the Variation Margin on each JSCC Business Day.

Article 74. Required Amount of Variation Margin

- 1 The required amount of Variation Margin shall be calculated by JSCC for the Proprietary Account and each Customer Account of each Clearing Participant based on the change in Net Present Value of Cleared Contracts from the previous JSCC Business Day to the current JSCC Business Day by the method separately prescribed by JSCC¹²⁶. When the Proprietary Account or a Customer Account, as appropriate, is divided into Sub-Accounts, the calculation in the preceding sentence shall be made by each of such Sub-Account.
- 2 JSCC shall calculate the required amount of Variation Margin in respect of Customer's Cleared Contracts for each Customer Account using the JSCC-prescribed method and shall notify said amounts to the Customer's Clearing Broker.

Article 75. Determination of Settlement Price

- 1 The Clearing Participants designated by JSCC based on the application made by such Clearing Participants¹²⁷ shall submit to JSCC, on each JSCC Business Day, the quotes for all Issues of Eligible Index CDS Transactions specified in the said application and for all Reference Entities of Eligible Single Name CDS Transactions specified in the said application during the time window designated by JSCC¹²⁸ on that JSCC Business Day in the manner separately prescribed by JSCC¹²⁹. With respect to Single Name CDS Transactions, the quotes mentioned above and in Paragraph 2 below shall be those designated by JSCC in a notification.
- 2 Clearing Participants, other than those designated under Paragraph 1 and that are

¹²⁶ cf. Handling Procedures of CDS Clearing Business Rules, Article 47.1.

¹²⁷ cf. Handling Procedures of CDS Clearing Business Rules, Article 48.

¹²⁸ cf. Handling Procedures of CDS Clearing Business Rules, Article 49.1.

¹²⁹ cf. Handling Procedures of CDS Clearing Business Rules, Article 49.2.

Specified Successor Financial Institutions, shall submit to JSCC, on each JSCC Business Day, the quotes for Eligible CDS Transactions, in which such Clearing Participants have positions of Cleared Contracts, during the time window designated by JSCC¹³⁰ on that JSCC Business Day in the manner separately prescribed by JSCC¹³¹.

3 JSCC shall determine a settlement price for each JSCC Business Day in respect of each Issue of Eligible CDS Transactions based on the quotes submitted to JSCC by Clearing Participants pursuant to Paragraphs 1 and 2 in the manner separately prescribed by JSCC¹³².

4 A Clearing Participant may outsource the submission of the quotes in Paragraphs 1 and 2 to an entity in the same Corporate Group as the Clearing Participant.

Article 76. Measures to Ensure Reliability of Settlement Price

1 Where a quote submitted by a Clearing Participant pursuant to Article 75.1 or 75.2 meets the specific criteria separately prescribed by JSCC¹³³, the CDS Transaction with the terms and conditions prescribed by JSCC¹³⁴ shall come into effect between JSCC and said Clearing Participant or said Clearing Participant shall pay an additional fee prescribed by JSCC¹³⁵ in addition to the fees listed in Article 16.

2 As to the CDS Transaction came into effect pursuant to the provisions of Paragraph 1, the provisions of the Rules shall apply by regarding said CDS Transaction as the Cleared Contract.

3 Where a Clearing Participant fails to submit quotes pursuant to Article 75.1 or 75.2, such Clearing Participant shall pay an additional fee prescribed by JSCC¹³⁶ in addition to the fees listed in Article 16.

Article 77. Cutoff Time for Deposit of Variation Margin

1 A Clearing Participant who is a payer of Variation Margin shall deposit with JSCC the amount of cash equal to the required amount of Variation Margin by 11:00 a.m. on the next JSCC Business Day following the date of calculation of such Variation Margin.

¹³⁰ cf. Handling Procedures of CDS Clearing Business Rules, Article 49.1.

¹³¹ cf. Handling Procedures of CDS Clearing Business Rules, Article 49.2.

¹³² cf. Handling Procedures of CDS Clearing Business Rules, Article 49.3.

¹³³ cf. Handling Procedures of CDS Clearing Business Rules, Article 50.1.

¹³⁴ cf. Handling Procedures of CDS Clearing Business Rules, Article 50.3.

¹³⁵ cf. Handling Procedures of CDS Clearing Business Rules, Article 50.4, as well as Article 50.5.

¹³⁶ cf. Handling Procedures of CDS Clearing Business Rules, Article 50.6.

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

Article 78. Interest on Variation Margin

1 JSCC and a Clearing Participant shall pay or receive interest on Variation Margin on a daily basis at the rate prescribed by JSCC¹³⁷ and in the manner prescribed by JSCC.

2 A Clearing Participant who is a payer of interest on Variation Margin shall pay such interest to JSCC by 11:00 a.m. on the next JSCC Business Day following the day on which the interest is calculated.

3 JSCC shall pay interest on Variation Margin to each Clearing Participant who is a receiver of such interest without delay after 1:30 p.m. on the next JSCC Business Day following the day on which the interest is calculated.

Article 79. Right to Claim Return of Variation Margin

JSCC and a Clearing Participant may not claim the other party to return Variation Margin except for payment and return in accordance with the provisions of the Rules or for return as a result of the Early Termination of any Cleared Contract.

Chapter 7 Fund Settlement (Articles 80 – 80-3)

Article 80. Fund Settlement

1 JSCC and Clearing Participants shall pay or receive cash specified by JSCC¹³⁸ in the manner prescribed by JSCC¹³⁹.

2 JSCC may pay or receive cash on a net basis separately for each of the Clearing Participant's Proprietary Account and separately by each Customer Account, in the manner prescribed by JSCC¹⁴⁰.

Article 80-2. Netting of Initial Margin and Settlement Amount

1 After the netting pursuant to Article 80.2, for the Proprietary Account and Customer Account,

¹³⁷ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 51.1.

¹³⁸ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 52.1.

¹³⁹ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 52.2.

¹⁴⁰ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 52.4.

the net amount payable by a Clearing Participant to JSCC in terms of Settlement Amount, Variation Margin, and interest on Variation Margin (referred to as "Clearing Participant Net Payable" in this Article) shall be netted with Initial Margin (as set forth in Article 66) as specified in the formulae below. If the net amount is negative, then the Clearing Participant shall deposit the absolute value of such amount with JSCC. The net amount calculated in Item (1) shall be deposited in cash.

- (1) Initial Margin Deposited Amount deposited in cash as of the end of the previous JSCC Business Day minus Net Payable as of the same timing
- (2) Initial Margin Deposited Amount as of the end of the previous JSCC Business Day minus Cash Allocated to Settlement minus Required Initial Margin as of the same timing

For the purpose of this Article, "Cash Allocated to Settlement" means Initial Margin Deposited Amount deposited in cash which is applied to Clearing Participant Net Payable payable by Clearing Participant to JSCC pursuant to Article 80-2.1.(1) above.

- 2 After the netting pursuant to the provisions of Article 80.2, for each account, a net amount payable by JSCC (referred to as "JSCC Net Payable" in this Article) shall be netted with Initial Margin (as set forth in Article 66) as specified in the formula below. If the net amount is negative, then the Clearing Participant shall deposit the absolute value of such amount with JSCC.

Initial Margin Deposited Amount as of the end of the previous JSCC Business Day plus JSCC Net Payable as of the same timing minus Required Initial Margin as of the end of the previous JSCC Business Day

Article 80-3. Request for Withdrawal and Deemed Deposit of Initial Margin

- 1 A Clearing Participant due to receive the net amount, as a result of the netting set forth in Article 80-2, shall only receive such amount upon informing JSCC of the attribution of such payment across each of its Proprietary Account and Customer Accounts.
- 2 If no request for the withdrawal of Initial Margin (as specified in Paragraph 1 above) is received for a particular Proprietary Account or Customer Account, the net amount for that account shall be deemed to have been deposited in the relevant account as Initial Margin.

Chapter 8 Settlement

Section 1 Credit Event (Articles 81 – 83)

Article 81. Decision on Material Matters concerning Credit Events

1 JSCC shall determine the matters concerning the Credit Events listed below in respect of Cleared Contracts and Reference Entities or their Obligations ("Material Matter(s) concerning Credit Events"):

(1) Matters concerning the occurrence of events constituting Credit Events; and

(2) Matters concerning Physical Settlement.

2 When a DC Resolution exists in connection with any Material Matter concerning Credit Events, JSCC adopts that DC Resolution as its determination under Paragraph 1.

3 Notwithstanding the provisions of Paragraph 2, JSCC shall determine the Material Matter concerning Credit Events according to the decision of JSCC Determination Committee set forth in Article 86, only when, despite a request for a convocation of a Credit Derivatives Determinations Committee, ISDA publicly announced that the Credit Derivatives Determinations Committee has resolved not to determine or deliberate on the matters so requested, and JSCC determines that it cannot adopt such resolution of the Credit Derivatives Determinations Committee given the status of the deliberations thereat or JSCC considers that the Credit Derivatives Determinations Committee or DC Secretary is in a situation where it cannot make such determination or public announcement; provided, however, that if the Credit Derivatives Determinations Committee Resolves otherwise after the determination made by the JSCC Determination Committee on the same Material Matter concerning Credit Events, JSCC shall adopt that DC Resolution as its decision regardless of the determination of the JSCC Determination Committee unless otherwise prescribed by JSCC¹⁴¹.

4 When JSCC intends to make a determination pursuant to the provisions of Paragraph 3, it shall consult with the JSCC Determination Committee.

5 When JSCC made a determination in respect of Material Matters concerning Credit Events, it shall immediately make a public announcement of that effect.

Article 82. Settlement

¹⁴¹ cf. Handling Procedures of CDS Clearing Business Rules, Article 53.

- 1 When a Credit Event Announcement applicable to any Cleared Contract has occurred, such Cleared Contract shall be settled in accordance with the Rules and the terms and conditions of such Cleared Contract.
- 2 The method of payment and receipt of Funds in the settlement of Paragraph 1 and other matters necessary in connection with the settlement shall be separately prescribed by JSCC.

Article 83. Credit Event Notice

- 1 Neither JSCC nor any Clearing Participant has any right to give a Credit Event Notice related to any Cleared Contract with respect to any Credit Event; provided, however, that the provisions of this Paragraph does not preclude Credit Event Notice being deemed to have been given in accordance with the terms and conditions of the Cleared Contract.
- 2 Notwithstanding the provisions of Paragraph 1, for 2003 Version Cleared Contracts, JSCC and a Clearing Participant shall have the right to give a Credit Event Notice related to 2003 Version Cleared Contract with respect to a Restructuring Credit Event.
- 3 When an occurrence of an event constituting a Restructuring Credit Event is determined in respect of 2003 Version Cleared Contracts and a Reference Entity (or its Obligations) pursuant to the provisions of Article 81, JSCC shall give the Credit Event Notice to all Clearing Participants who are the parties to the relevant Cleared Contracts if no Credit Event Notice has been given to JSCC by a Clearing Participant.
- 4 A Credit Event Notice, if given by 4:00 p.m. on any JSCC Business Day, shall take effect on such JSCC Business Day, and, if given after 4:00 p.m. on any JSCC Business Day, shall take effect on the next JSCC Business Day.
- 5 In addition to the matters set forth in Paragraph 4, the method of Credit Event Notice shall be separately prescribed by JSCC¹⁴², and any Credit Event Notice given in any other method shall be null and void.

Section 2 Succession Date (Articles 84 - 85)

Article 84. Determination of Succession Date

- 1 JSCC shall decide on the matters related to Reference Entities under Cleared Contracts

¹⁴² cf. Handling Procedures of CDS Clearing Business Rules, Article 54.

listed below:

- (1) Matters related to a Succession Date under ISDA Credit Derivatives Definitions or an occurrence of a Succession Event under ISDA Credit Derivatives Definitions (2003 Version); and
- (2) Matters related to a Successor.

2 When a DC Resolution exists in connection with any of the matters listed in Paragraph 1, JSCC adopts that DC Resolution as its determination under Paragraph 1.

3 Notwithstanding the provisions of Paragraph 2, JSCC shall determine the matters listed in Paragraph 1 according to the decision of JSCC Determination Committee set forth in Article 86, only when, despite a request for a convocation of a Credit Derivatives Determinations Committee, ISDA publicly announced that the Credit Derivatives Determinations Committee has resolved not to determine or deliberate on the matters so requested, and JSCC determines that it cannot adopt such resolution of the Credit Derivatives Determinations Committee given the status of the deliberations thereat or JSCC considers that the Credit Derivatives Determinations Committee or DC Secretary is in a situation where it cannot make such determination or public announcement; provided, however, that if the Credit Derivatives Determinations Committee Resolves otherwise after the determination made by the JSCC Determination Committee on the same matter, JSCC shall adopt that DC Resolution as its decision regardless of the determination of the JSCC Determination Committee unless otherwise prescribed by JSCC¹⁴³.

4 When JSCC intends to make a determination pursuant to the provisions of Paragraph 3, it shall consult with the JSCC Determination Committee.

5 When JSCC made a determination in respect of the matters listed in Paragraph 1, it shall immediately make a public announcement of that effect.

Article 85. Cleared Contract Referencing Reference Entity for which Occurrence of Succession Date or Succession Event is Determined

When an occurrence of a Succession Date or a Succession Event is determined in respect of a Reference Entity pursuant to the provisions of Article 84, the Cleared Contracts referencing such Reference Entity shall remain in effect as Cleared Contracts referencing

¹⁴³ cf. Handling Procedures of CDS Clearing Business Rules, Article 57.

the Successor thereof as Reference Entity.

Section 3. JSCC Determination Committee (Article 86)

Article 86. JSCC Determination Committee's Powers and Authorities

- 1 JSCC shall establish JSCC Determination Committee, as its advisory committee, in order to determine Material Matters concerning Credit Events, the matters listed in Article 84.1 and other matters separately prescribed by JSCC in the Subordinate Rules¹⁴⁴.
- 2 The powers, authority, composition, committee member election method and operation of the JSCC Determination Committee and other necessary matters shall be specified in the Subordinate Rules¹⁴⁵.
- 3 With respect to the matters in which the JSCC Determination Committee has powers and authorities, JSCC shall make decision based on the determination of the JSCC Determination Committee, if any.
- 4 JSCC's decision under the provisions of Paragraph 3 shall be binding upon JSCC and the Clearing Participants who are the parties to the Cleared Contracts to which such determination relates.

Chapter 9 Clearing Deposit (Articles 87 -89)

Article 87. Clearing Deposit

The CDS Clearing Fund, Initial Margin, the Third Tier Special Clearing Charge Collateral and the Default Contingent Margin deposited with JSCC by Clearing Participants constitute the "Clearing Deposit" as prescribed in Article 156-11 of the Financial Instruments and Exchange Act.

Article 88. Management of Clearing Deposit

- 1 JSCC shall hold the entire amount of the Clearing Deposit by segregating it in the manner prescribed by JSCC¹⁴⁶ on behalf of the Clearing Participants or Customers.
- 2 JSCC may manage the Clearing Deposit in the manner prescribed by JSCC¹⁴⁷ on behalf

¹⁴⁴ *cf.* JSCC Determination Committee Rules.

¹⁴⁵ *cf.* JSCC Determination Committee Rules.

¹⁴⁶ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 52-2.

¹⁴⁷ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 52-3.

of the depositing Clearing Participants.

- 3 The profit or loss (including costs and fees) from JSCC's management of the Clearing Deposit shall vest in JSCC.
- 4 JSCC may, at its discretion, pay interest on the Clearing Deposit in the manner prescribed by JSCC¹⁴⁸ if the profit arises from the management of the Clearing Deposit.
- 5 If there arises any loss from the management of the Clearing Deposit as set forth in Paragraph 2, each Clearing Participant and Customer which has deposited CDS Clearing Fund, Initial Margin or Default Contingent Margin in cash shall pay JSCC its share of such loss determined in the manner prescribed by JSCC¹⁴⁹.
- 6 CDS Clearing Fund, Initial Margin and Default Contingent Margin that have been deposited by the Clearing Participants and Customers shall be applied to the payment due from the Clearing Participants and Customers under Paragraph 5 above in the manner prescribed by JSCC¹⁵⁰.

Article 89. Prohibition of Use of Clearing Deposit for Other Purposes

JSCC is restricted in what it may do with the Clearing Deposit as follows: JSCC may not utilise, withdraw it, transfer it to a third party, create a pledge or any other security interests for the benefit of a third party on it, or otherwise dispose of it; provided that JSCC may manage it, including the payment of interest to a Clearing Participant as set forth in Article 88.4, and refund it to a Clearing Participant or a Customer in accordance with these Business Rules.

Chapter 10 Actions to be Taken in Case of Clearing Participant's Failure of Settlement

Section 1. Determination of Failure of Settlement and Default (Articles 90 - 91)

Article 90. Actions to be Taken in Case of Occurrence of Failure of Settlement and Default

- 1 Where JSCC determines a Clearing Participant's Settlement Failure, JSCC shall suspend Clearing of transactions to which such Clearing Participant ("Failed Participant") is a party and suspend the transfer of Funds, entirely or partially, to the Failed Participant to the

¹⁴⁸ cf. Handling Procedures of CDS Clearing Business Rules, Article 52-4.1.

¹⁴⁹ cf. Handling Procedures of CDS Clearing Business Rules, Article 52-4.3.

¹⁵⁰ cf. Handling Procedures of CDS Clearing Business Rules, Article 52-4.4.

extent and for such period deemed necessary by JSCC.

2 Notwithstanding the provisions of Paragraph 1, in the case where JSCC determines the Default of a Clearing Participant, JSCC may suspend an acceptance of Clearing of the Subject Transaction for Clearing to which such Defaulting Clearing Participant is a party and suspend the transfer of Funds, entirely or partially, to the Defaulting Clearing Participant.

3 JSCC may apply Funds, the delivery of which is suspended pursuant to Paragraphs 1 and 2, to the performance of the obligations of the Failed Participant or the Defaulting Clearing Participant to JSCC. Where such Funds consist of securities, claims or other non-cash properties, JSCC shall liquidate them. The manner, time and price are at JSCC's discretion.

Article 91. Notification of Suspension of Clearing

When JSCC suspends acceptance of Clearing for any Clearing Participant under the provisions of Article 90.1 or 90.2, JSCC shall immediately notify all Clearing Participants and make a public announcement to that effect. If JSCC determines the Default of a Clearing Participant (Article 90.2), JSCC shall also notify the fact of determination of Default and the date of determination.

Section 2. Compulsory Termination of Cleared Contracts of Defaulting Clearing Participant (Articles 92 – 100)

Article 92. Compulsory Termination of Cleared Contracts

1 The Cleared Contracts belonging to a Clearing Participant found to be in Default shall be terminated without further notice on the Default Determination Date.

2 The Early Termination Charge payable due to closing out of the Defaulting Clearing Participant's Cleared Contracts shall be the sum of the costs and losses incurred by JSCC in re-establishing its positions. The method of calculation is specified in the Subordinate Rules¹⁵¹.

3 JSCC shall notify the Defaulting Clearing Participant of the Early Termination Charge, as described in Paragraph 2.

4 Upon receipt of notice of the Early Termination Charge, the Defaulting Clearing Participant

¹⁵¹ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 6.

shall immediately pay such fee to JSCC.

Article 93. Default Management Committee

- 1 JSCC shall establish the Default Management Committee in order to advice on hedging and the Default Auctions and other matters specified in the Subordinate Rules¹⁵² (referred to as “Matters for Consultation” in Paragraph 2 below) which would become necessary upon Clearing Participant's Default.
- 2 JSCC shall consult the Default Management Committee on Matters for Consultation, and shall take account of the advice of the Default Management Committee thereon.
- 3 JSCC shall nominate the Clearing Participants who shall be the members of the Default Management Committee in the manner prescribed in the Subordinate Rules¹⁵³. JSCC shall require that the committee members be bound to maintain confidentiality.
- 4 The powers, authority, composition, term of office of each committee member and operation of the Default Management Committee and other necessary matters shall be specified in the Subordinate Rules¹⁵⁴.

Article 94. Hedging Measures

- 1 At JSCC's discretion, taking account the advice of the Default Management Committee, the composition and size of the Defaulting Clearing Participant's Cleared Contracts, market conditions and other factors, JSCC may execute CDS Transactions for the purpose of hedging the risk of all or part of losses that may be suffered by JSCC as a result of a termination of the Defaulting Clearing Participant's Cleared Contracts until JSCC is able to re-establish its positions, subject to the provisions of this Article (“Hedge Transactions”).
- 2 For the purpose of the Rules, Hedge Transactions shall be Cleared Contracts. The details concerning the Hedge Transactions shall be prescribed by JSCC on each occasion.

Article 95. Position Transfer of Customer's Cleared Contracts

- 1 On the termination of Customer's Cleared Contract pursuant to the provisions of Article 92, the Customer's Cleared Contracts of each Customer not in Default under its Clearing Brokerage Agreement may be transferred as Position Transfer as a whole, to one or more other Successor Clearing Broker who shall assume the rights, claims and obligations listed

¹⁵² *cf.* CDS Default Management Committee Rules, Article 4.1.

¹⁵³ *cf.* CDS Default Management Committee Rules.

¹⁵⁴ *cf.* CDS Default Management Committee Rules.

below, through the submission by the Customer of an application to JSCC via the Successor Clearing Broker(s). This may only be done during the period specified in the Subordinate Rules¹⁵⁵..:

- (1) The claims and obligations identical, in terms and conditions as prescribed in the Subordinate Rules¹⁵⁶, to the claims and obligations under the Customer's Cleared Contracts between the Defaulting Clearing Broker and JSCC which are in effect immediately before the termination of such Customer's Cleared Contracts pursuant to the provisions of Article 92; and
- (2) The claims and obligations identical, in terms and conditions as prescribed in the Subordinate Rules¹⁵⁷, to the claims and obligations under the Clearing Brokerage Contract between the Defaulting Clearing Broker and the Customer which are in effect immediately before the termination of the Customer's Cleared Contracts pursuant to the provisions of Article 92.

2 Where a Customer applies to JSCC a Position Transfer to one or more Successor Clearing Brokers pursuant to the provisions of Paragraph 1, the Customer shall obtain the consent of all of the Successor Clearing Brokers.

3 When all Successor Clearing Brokers consent to the Position Transfer in Paragraph 2, they shall submit the request form received from the Customer to JSCC within the period referenced in Paragraph 1. The request form shall state, among other things, the effect that the Successor Clearing Broker was asked to accept Position Transfer and has accepted it; that the Customer is submitting request for Position Transfer to JSCC; and that the Successor Clearing Broker is submitting the request for Position Transfer to JSCC.

4 Where JSCC accepts the request for Position Transfer under Paragraphs 1 and 4, the settlement for the transferred Customer's Cleared Contracts and Position Transfer shall be undertaken according to the following provisions:

- (1) The claims and obligations prescribed in each Item of Paragraph 1 shall arise de novo among JSCC, all of the Successor Clearing Brokers and the Customer, as applicable, on the date of JSCC's acceptance of the request for Position Transfer ("Position Transfer Date");

¹⁵⁵ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 8.1.

¹⁵⁶ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 8.3.

¹⁵⁷ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 8.3.

- (2) The claims and obligations which arise pursuant to Item (1) shall be deemed to be the claims and obligations related to the Customer's Cleared Contract and the Clearing Brokerage Contract corresponding to it that the Successor Clearing Broker accepted the Position Transfer has caused to come into effect on the Customer's book through a Clearing Brokerage for the Customer at the moment that the transferred Cleared Contract with the Defaulting Clearing Broker was terminated;
- (3) Where claims and obligations arise as a result of Item (1), JSCC, the Successor Clearing Broker and the Customer respectively shall pay or receive the Position Transfer Fee, any unsettled Fixed Amounts other than those which has already become due between JSCC and the Defaulting Clearing Broker at the time of Default determination, and Variation Margin, as prescribed in the Subordinate Rules¹⁵⁸;
- (4) Initial Margin to which the relevant Customer has the right to claim return under Article 72 shall be treated as Initial Margin that has been deposited with JSCC by such Customer through the Successor Clearing Broker;
- (5) The claims and obligations arising as a result of the Clearing Brokerage Contract between the Defaulting Clearing Broker and the Customer as well as the claims and obligations resulting from Variation Margin paid or received between them in relation to such Clearing Brokerage Contract, excluding the obligations of the Defaulting Clearing Participant in connection with the Cleared Contracts which have become already due on the Default Determination Date, and the claims and obligations relating to Customer Initial Margin in the amount equal to those deemed to have been deposited with JSCC by the Customer through the Successor Clearing Broker pursuant to Item (4), shall cease to exist and have no future effect; and
- (6) Notwithstanding the provisions of Article 92.2, the Early Termination Charge as a result of the transferred Customer's Cleared Contracts shall be calculated according to the last Settlement Price of each Cleared Contract before the termination thereof as prescribed in the Subordinate Rules¹⁵⁹.

5 For the purpose of the Rules, the claims and obligations which arise between JSCC and each Successor Clearing Broker pursuant to the provisions of Paragraph 4 shall be

¹⁵⁸ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 8.4.

¹⁵⁹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 8.5.

deemed as the Customer's Cleared Contracts.

6 In addition to the provisions of Paragraphs 1 to 5, other matters necessary for Position Transfer shall be prescribed in the Subordinate Rules.

Article 96. Default Auction

1 Following the Default of a Clearing Participant, in order to re-establish the positions affected by the termination of the Defaulting Clearing Participant's Cleared Contracts, JSCC may hold an auction ("Default Auction") to execute CDS Transactions in bulk to eliminate losses that JSCC may suffer from the termination of such Defaulting Clearing Participant's Cleared Contracts and the Hedge Transactions. The Customer's Cleared Contracts transferred to the Successor Clearing Broker by way of the Position Transfer pursuant to the provisions of Article 95 shall be excluded from the scope of such Default Auction.

2 Before holding a Default Auction, JSCC shall determine, and advise Clearing Participants of, the Issues and quantity of the CDS Transactions to be executed by the Default Auction ("Auction Transactions") and other terms and conditions, in the manner prescribed in the Subordinate Rules¹⁶⁰.

3 All Clearing Participants other than Defaulting Clearing Participant are required to participate in Default Auction in the manner prescribed in the Subordinate Rules¹⁶¹.

4 In addition to the provisions of Paragraphs 1, 2 and 3, the procedures and other matters related to Default Auction shall be prescribed in the Subordinate Rules¹⁶².

Article 97. Consultation in the event of Shortfall in Loss Recovery

1 Following a Default Auction, where it is threatened that the losses arising out of the Default of the Defaulting Clearing Participant as a result of the execution of the Auction Transactions, calculated pursuant to the provisions of Article 102.2, cannot be recovered in full under Articles 104 to 106, JSCC and Clearing Participants shall hold mutual consultation on how to settle such losses in the manner prescribed in the Subordinate Rules¹⁶³.

2 When, as a result of the consultation, an agreement is reached among JSCC and all

¹⁶⁰ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 10.

¹⁶¹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 9.

¹⁶² *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Articles 9 to 18.

¹⁶³ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 20.

Clearing Participants other than the Defaulting Clearing Participant, pursuant to the provisions of the Subordinate Rules¹⁶⁴, JSCC shall settle such losses in accordance with such agreement, provided that the settlement shall enable it to recover such losses in full and to continue its CDS Clearing Business.

Article 98. Compulsory Termination of Cleared Contracts due to Failure of Mutual Consultation

- 1 When the consultation is held among JSCC and the Clearing Participants pursuant to Article 97.1 but they fail to reach the agreement referred to in Article 97.2 within the period prescribed in the Subordinate Rules¹⁶⁵, any and all Cleared Contracts remaining in force shall terminate automatically as of the end of such period without any notice from JSCC or any Clearing Participant.
- 2 JSCC shall prescribe in the Subordinate Rules the amount of Early Termination Charge which becomes payable and other necessary matters relating to the termination of Cleared Contracts under Paragraph 1.

Article 99. Notification in relation to Mutual Consultation

When agreement is reached under Article 97.2, or Cleared Contracts specified in Article 98.1 are terminated under Article 98.1, JSCC shall immediately notify all Clearing Participants and make a public announcement to that effect.

Article 100. Execution of Auction Transaction

- 1 When a Clearing Participant makes a successful bid on all or a part of Auction Transactions in a Default Auction, such Auction Transactions shall come into effect between JSCC and such Clearing Participant in the manner as prescribed in the Subordinate Rules¹⁶⁶.
- 2 JSCC and the Clearing Participant referred to in Paragraph 1 shall, when Auction Transactions come into effect pursuant to the provisions of Paragraph 1, pay or receive the cash and Variation Margin prescribed in the Subordinate Rules¹⁶⁷ in the manner prescribed in the Subordinate Rules¹⁶⁸.
- 3 For the purpose of the Rules, Auction Transactions that come into effect pursuant to the provisions of Paragraph 1 shall be deemed as Cleared Contracts.

¹⁶⁴ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 20.

¹⁶⁵ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 21.

¹⁶⁶ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 18.2.

¹⁶⁷ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 19.1.

¹⁶⁸ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 19.2.

4 In addition to the provisions of Paragraphs 2 and 3, procedures that would need to be followed when an Auction Transaction comes into effect shall be prescribed in the Subordinate Rules¹⁶⁹.

Section 3. Netting and Application of Collateral in respect of Obligation of Defaulting Clearing Participant (Articles 101 – 102)

Article 101. Obligation in relation to Default Settlement

A Defaulting Clearing Participant shall be required to pay an Early Termination Charge which becomes payable upon termination of the Defaulting Clearing Participant's Cleared Contracts. In addition, if JSCC incurs losses, expenses or obligations as a result of the Default Auction, the execution of the Auction Transactions under Articles 96 and 100 or otherwise for the settlement of the Defaulting Clearing Participant's Cleared Contracts, the Defaulting Clearing Participant shall indemnify JSCC for such losses, expenses or obligations.

Article 102. Method for Settlement of Defaulting Clearing Participant's Cleared Contracts

1 Notwithstanding anything to the contrary stated herein, in respect of the obligations which a Defaulting Clearing Participant owes to JSCC in connection with termination of the Defaulting Clearing Participant's Cleared Contracts set forth in Item (1) below ("Unsettled Obligations"), the net-settlement thereof and the application of collateral thereto shall be made pursuant to the provisions of Item (2) of this paragraph, on the day on which all the amounts of Unsettled Obligations, obligations of JSCC to be netted out against such Unsettled Obligations and the value of the collateral to be applied to the payment of such Unsettled Obligations are fixed:

- (1) Unsettled Obligations shall be:
 - a. Payment obligation for the Early Termination Charge payable by the Defaulting Clearing Participant to JSCC as a result of termination of the Defaulting Clearing Participant's Cleared Contracts;
 - b. Obligation to return Variation Margin deposited by JSCC with the Defaulting Clearing Participant for the Defaulting Clearing Participant's Cleared Contracts and the payment obligation for the accrued interests on such Variation Margin;

¹⁶⁹ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 19.3.

- c. Any unsettled obligation of the Defaulting Clearing Participant in relation to any Cleared Contract that has already become due at the time when the occurrence of the Default of such Defaulting Clearing Participant is determined; and
 - d. Payment obligations owed by the Defaulting Clearing Participant pursuant to the provisions of Article 101.
- (2) Netting and application of collateral shall be conducted pursuant to the following provisions:
 - a. The amount of the Early Termination Charge payable by JSCC shall be deducted from the total amount of the Unsettled Obligations set forth in Item (1) ("Defaulting Clearing Participant Payment Amount").
 - b. Variation Margin deposited with JSCC by the Defaulting Clearing Participant for the Defaulting Clearing Participant's Cleared Contracts shall be applied to the payment of the Unsettled Obligations, and the amount so applied shall be deducted from the total amount of Unsettled Obligations remaining after the deduction set forth in a. above;
 - c. The Funds of which delivery to the Defaulting Clearing Participant has been suspended pursuant to the provisions of Article 90.2 shall be applied to the payment of the Unsettled Obligations, and the amount so applied shall be deducted from the total amount of Unsettled Obligations remaining after the deduction set forth in b. above, provided that, for securities, claims and other non-cash properties, the price for JSCC's purchase thereof or the proceeds from their liquidation remaining after payment of cost of such purchase or liquidation shall be applied to the payment of the Unsettled Obligations;
 - d. Initial Margin deposited for the Defaulting Clearing Participant's Cleared Contracts other than Initial Margin of which the Customer has the right to claim return pursuant to the provisions of Article 72 shall be applied to the payment of the Unsettled Obligations, and the amount so applied shall be deducted from the total amount of Unsettled Obligations remaining after the deduction set forth in c. above, provided that, for Initial Margin in the form of securities, the proceeds from their liquidation remaining after payment of cost of liquidation shall be applied to the payment of the Unsettled Obligations;
 - e. The CDS Clearing Fund and the Default Contingent Margin deposited by the

Defaulting Clearing Participant shall be applied to the payment of the Unsettled Obligations, and the amount so applied shall be deducted from the amount of Unsettled Obligations remaining after the deduction set forth in d. above, provided that for securities deposited as the CDS Clearing Fund or the Default Contingent Margin, the proceeds from their liquidation remaining after payment of cost of liquidation shall be applied to the payment of the Unsettled Obligations; and

- f. The excess collateral deposited by the Defaulting Clearing Participant to secure its obligations under any Other Clearing Business shall be applied to the payment of the Unsettled Obligations, and the amount so applied shall be deducted from the Unsettled Obligations remaining after the deduction set forth in e. above. As used herein, "excess collateral" means margin, clearing fund and any other collateral deposited by the Defaulting Clearing Participant with JSCC in respect of any of the Other Clearing Businesses, to which the Defaulting Clearing Participant has the right to claim return, remaining after application thereof to the payment of the Defaulting Clearing Participant's obligations in accordance with the business rules of such Other Clearing Business, provided that in the case of the excess collateral in the form of securities, it shall be the amount of proceeds of their liquidation remaining after the cost of such liquidation.

2 When there still remains any Defaulting Clearing Participant Payment Amount outstanding after the netting and application of collateral as set forth in Paragraph 1, the total amount of such outstanding Defaulting Clearing Participant Payment Amounts shall constitute one single claim of JSCC against the Defaulting Clearing Participant arising from termination of all Defaulting Clearing Participant's Cleared Contracts notwithstanding any other provision of these Business Rules.

Section 4. Sharing of Losses by Other Clearing Participants (Articles 103 – 111)

Article 103. Calculation of Losses Resulting from Default Settlement

1 On the date prescribed in the Subordinate Rules¹⁷⁰ ("Initial Loss-Determination Date"), JSCC shall determine whether or not any claim owed by JSCC against the Defaulting Clearing Participant will arise pursuant to the provisions of Article 102.2 as a result of the netting and application of collateral pursuant to the provisions of Article 102.1 and calculate

¹⁷⁰ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 23.1.

the amount thereof.

- 2 If under Paragraph 1, there is any claim or obligation or collateral the amount of which is yet to be determined, JSCC shall carry out the calculation set forth in Paragraph 1 by reference to an estimated amount thereof determined by JSCC.

Article 104. Recovery of Losses with CDS Settlement Guarantee Reserve and other Resources

- 1 If JSCC may have any claim against the Defaulting Clearing Participant as a result of the calculation under Article 103, JSCC shall recover the loss calculated corresponding to the amount of such claim (other than those items excluded by the Subordinate Rules¹⁷¹), and any other losses prescribed in the Subordinate Rules¹⁷² that have arisen in the course of the settlement of default of the Defaulting Clearing Participant by the Initial Loss-Determination Date (“Excess Default Loss”), in the order and in the manner set forth in the following items. For the purpose of these Business Rules, “Clearing Participant Default Settlement” includes the Default Auction and any other necessary actions in resolving the Default of a Defaulting Clearing Participant:

- (1) Application of the First Tier CDS Settlement Guarantee Reserve; and
- (2) Application of the CDS Clearing Fund deposited by each Clearing Participant other than the Defaulting Clearing Participant with JSCC and the Second Tier CDS Settlement Guarantee Reserve. The amount of the CDS Clearing Fund to be applied shall not exceed the Second Tier Clearing Participant Cap applicable to each Clearing Participant minus the amount that has already been used for the recovery of losses pursuant to this Article in respect of other Defaults determined during the same Default Settlement Period, if any.

- 2 If the funds set forth in Paragraph 1.(2) are sufficient to recover the remaining Excess Default Loss, the amount and the order of the CDS Clearing Fund deposited by each Clearing Participant other than the Defaulting Clearing Participant with JSCC and the Second Tier CDS Settlement Guarantee Reserve to be used for such recovery shall be determined separately by each Default Auction in the following manner:

- (1) Determine each of the following amounts subject to respective Default Auction by

¹⁷¹ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 24.1.

¹⁷² cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 24.2.

proportionately dividing these amounts:

- i) Excess Default Loss remaining after the application made in a manner set forth in Paragraph 1.(1) ("Prorated Excess Default Loss");
- ii) CDS Clearing Fund deposited with JSCC by each Clearing Participant other than the Defaulting Clearing Participant ("Allocated CDS Clearing Fund");
- iii) the Second Tier Clearing Participant Cap ("Allocated Second Tier Clearing Participant Cap"); and
- iv) the Second Tier CDS Settlement Guarantee Reserve ("Allocated Second Tier CDS Settlement Guarantee Reserve").

In this calculation, the proportion applicable to each Default Auction shall be determined based on the amount obtained by subtracting net Variation Margin JSCC received from the Defaulting Clearing Participant with respect to the Auction Transactions in the relevant Default Auction as of the Default Determination Date from the total amount of the Successful Bid Amount for the relevant Default Auction. For the purpose of the preceding sentence, "net Variation Margin JSCC received from the Defaulting Clearing Participant" means the amount obtained by subtracting the Variation Margin the Defaulting Clearing Participant received from JSCC from the Variation Margin JSCC received from the Defaulting Clearing Participant.

- (2) For each Default Auction, determine the total amount to be used for recovery from the Allocated CDS Clearing Fund (referred to as "Allocated Total Second Tier Clearing Participants Contributions" in this Paragraph) and the amount to be used for recovery from the Allocated Second Tier CDS Settlement Guarantee Reserve by allocating the Prorated Excess Default Loss on a pro rata basis according to the total amount of the Allocated Second Tier Clearing Participant Cap for each Clearing Participant other than the Defaulting Clearing Participant and the Allocated Second Tier CDS Settlement Guarantee Reserve.
- (3) If there is any Clearing Participant notified JSCC that it is difficult to participate in any of the Default Auctions due to unavoidable circumstances, other than any reason attributable to the Clearing Participant, such as inadequate business capability, in the manner prescribed by JSCC ("Bid Exempted Participant"), the Allocated Total Second Tier Clearing Participants Contributions determined according to Item (2) above shall be further proportionately divided into (i) those allocated to the Bid Exempted Participants and (ii) those allocated to the Clearing Participants other than the

Defaulting Clearing Participant and the Bid Exempted Participant;

- (4) For each Default Auction, determine the Allocated CDS Clearing Fund of each Bid Exempted Participant to be used for recovery by prorating the Allocated Total Second Tier Clearing Participants Contributions allocated to the Bid Exempted Participants related to the relevant Bid Auction according to the Allocated Second Tier Clearing Participant Cap for the Bid Exempted Participants related to the relevant Default Auction;

- (5) For each Default Auction, determine and use the Allocated CDS Clearing Fund of each Clearing Participant other than the Defaulting Clearing Participant and the Bid Exempted Participants in the following order:

- a. Allocated CDS Clearing Fund deposited by a Clearing Participant who is required but failed to participate in the relevant Default Auction, excluding the Bid Exempted Participants, but including Clearing Participants failed to submit a bid in the amount at least equal to the minimum Notional Amount:

The amount to be used shall be determined by prorating the Allocated Second Tier Clearing Participant Contributions allocated to Clearing Participants other than the Defaulting Clearing Participant and the Bid Exempted Participants according to the Allocated Second Tier Clearing Participant Cap of each Clearing Participant captured by this item but limited to the Allocated Second Tier Clearing Participant Cap of each Clearing Participant;

- b. The Allocated CDS Clearing Fund deposited by a Clearing Participant whose bid price at the relevant Default Auction falls on the prices prescribed in the Subordinate Rules¹⁷³ as significant deviation from the prevailing market price. When deciding bids subject to this sub-item, the Notional Amount for each bid is added up from the bid with the lowest bid price until the total Notional Amount reaches the minimum Notional Amount for the relevant Clearing Participant, and only the bids whose Notional Amounts constitute a part of the said total Notional Amount shall be subject to the this sub-item:

The amount to be used shall be determined by prorating the Allocated Second Tier Clearing Participant Contributions allocated to Clearing Participants other than the Defaulting Clearing Participant and the Bid Exempted Participants

¹⁷³ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 24.4.

minus the amounts used in a. above according to the Allocated Second Tier Clearing Participant Cap of the Clearing Participant captured in this item, but limited to the Allocated Second Tier Clearing Participant Cap of each Clearing Participant; and

- c. The Allocated CDS Clearing Fund deposited by each Clearing Participant other than the Bid Exempted Participants and Clearing Participants subject to a. and b. above:

The amount to be used shall be determined in the manner prescribed in the Subordinate Rules ¹⁷⁴, but limited to the Allocated Second Tier Clearing Participant Cap of each Clearing Participant.

3 The use of the total amount of the Allocated CDS Clearing Fund for loss recovery under Paragraph 2 shall constitute the payment obligation of the relevant Clearing Participant owed to JSCC in the amount so used. The CDS Clearing Fund shall be deemed to have been contributed for loss recovery pursuant to Paragraphs 1 and 2 on the Initial Loss-Determination Date without any further instruction from JSCC or any Clearing Participant and through an offset of the claim of JSCC in the above-mentioned obligation against the Non-Defaulting Clearing Participant's right to claim a return of CDS Clearing Fund in the amount equal to such obligations.

4 The Allocated CDS Clearing Fund deposited by a Clearing Participant that is a Specified Successor Financial Institution will be used as the Allocated CDS Clearing Fund falling under Paragraph 2.(5).c. according to the order as set forth in Paragraph 2.(5).

Article 104-2. Special Provisions for CDS Clearing Fund in Default Settlement Period

1 Notwithstanding the Subordinate Rules referred to in Article 17.2 hereof, the Required CDS Clearing Fund for each Clearing Participant during the Default Settlement Period shall remain unchanged from the Required CDS Clearing Fund for each Clearing Participant applicable on the JSCC Business Day immediately preceding the first day of such Default Settlement Period, except as set forth in Paragraph 3.

2 If the CDS Clearing Fund is used in whole or in part for a loss recovery during the Default Settlement Period pursuant to Article 104.1.(2), notwithstanding the provisions of Article 17.2, a Clearing Participant shall not be required to make additional deposit to the CDS

¹⁷⁴ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 24.6.

Clearing Fund.

3 Notwithstanding the provisions of Paragraph 1 above, the Required CDS Clearing Fund for each Clearing Participant as of the last day of the Default Settlement Period shall be, for each Clearing Participant, the amount calculated on the last day of such Default Settlement Period. Such Required CDS Clearing Fund shall apply until the day immediately preceding the date of resumption of the calculation of the Required CDS Clearing Fund pursuant to Article 17.2 hereof. In this case, if the amount of CDS Clearing Fund and the Default Contingent Margin deposited by a Clearing Participant with JSCC as of the last day of the Default Settlement Period falls short of the Required CDS Clearing Fund applicable on the last day of the Default Settlement Period determined pursuant to the provisions of Paragraph 1, such Clearing Participant shall deposit with JSCC an amount at least equal to such shortfall by 2:00 p.m. on the next JSCC Business Day following the last day of the Default Settlement Period.

Article 105. Recovery of Losses with Third Tier Special Clearing Charge

1 If Excess Default Loss is not fully recovered in the manner set forth in Article 104, Clearing Participants other than the Defaulting Clearing Participant existing as of the Default Determination Date (referred to as “Participant(s) Bearing Third Tier Special Clearing Charge” in this Article) shall assume the obligation to pay the Third Tier Special Clearing Charge to JSCC in the manner prescribed in the Subordinate Rules¹⁷⁵. In such case, JSCC shall apply such Third Tier Special Clearing Charges paid by the Participants Bearing Third Tier Special Clearing Charge to the recovery of Excess Default Loss remaining after application of funds set forth in Article 104.

2 The amount of the Third Tier Special Clearing Charge set forth in Paragraph 1 shall be determined for each Participant Bearing Third Tier Special Clearing Charge according to the Subordinate Rules¹⁷⁶ in respect of each, provided that such amount shall not be more than the Required CDS Clearing Fund as of the JSCC Business Day immediately preceding the first day of the prevailing Default Settlement Period.

Article 106. Recovery of Losses with Fourth Tier Special Clearing Charge

1 If, as a result of the recovery of losses as set forth in Article 105, Excess Default Loss still remains unrecovered, the Fourth Tier Special Clearing Charge (defined in Paragraph 2 below) shall be paid by Participants Bearing Fourth Tier Special Clearing Charge (defined

¹⁷⁵ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 29.

¹⁷⁶ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 27.1.

below) to JSCC in the manner prescribed by JSCC in the Subordinate Rules¹⁷⁷. JSCC shall apply such Fourth Tier Special Clearing Charges paid by the Participants Bearing Fourth Tier Special Clearing Charge to recover the remaining Excess Default Loss.

As used herein, the “Participants Bearing Fourth Tier Special Clearing Charge” means the Clearing Participants other than the Defaulting Clearing Participant existing as of the Default Determination Date whose aggregate receiving Cash Settlement Amount is greater than its aggregate paying Cash Settlement Amount in respect of all Cleared Contracts that have existed from the Default Determination Date through the Initial Loss-Determination Date, including the Cleared Contracts that have come into effect after the Default Determination Date and the Cleared Contracts that have been terminated before the Initial Loss-Determination Date.

- 2 The Fourth Tier Special Clearing Charge shall be the amount determined as set out in the Subordinate Rules¹⁷⁸ for each Participant Bearing Fourth Tier Special Clearing Charge, provided that such amount shall not be more than the amount calculated according to the following formula, over the period from the Default Determination Date, or, if the settlement of the Defaulting Clearing Participant's Cleared Contracts between JSCC and the Defaulting Clearing Participant have been completed as of the Default Determination Date, the next JSCC Business Day following the Default Determination Date, to the Initial Loss-Determination Date:

The sum of the total Cash Settlement Amount which JSCC could not receive from the Defaulting Clearing Participant in respect of the Defaulting Clearing Participant's Cleared Contracts and the total Cash Settlement Amount payable by JSCC to Clearing Participants in respect of any Hedge Transactions deemed as Cleared Contracts pursuant to the provisions of Article 94.2 less the Cash Settlement Amount receivable by JSCC from such Clearing Participant, prorated according to each Clearing Participant's proportion of the net Cash Settlement Amount paid by JSCC to all Participants Bearing Fourth Tier Special Clearing Charge as a result of all Cleared Contracts of Participants Bearing Fourth Tier Special Clearing Charge.

Article 107. Deposit of Special Clearing Charge Collateral

- 1 A Clearing Participant shall be required to deposit Special Clearing Charge Collateral with JSCC in the manner prescribed in the Subordinate Rules¹⁷⁹, for the purpose of securing the obligation set forth below (referred to as “Secured Obligations” in this Article 107.3).

¹⁷⁷ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 30.

¹⁷⁸ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 28.

¹⁷⁹ *cf.* Handling Procedures of CDS Clearing Business Rules, Article 22.1.

That collateral is broken down into:

- (1) Third Tier Special Clearing Charge Collateral, to secure obligation relating to the Third Tier Special Clearing Charge; and
- (2) Fourth Tier Special Clearing Charge Collateral, to secure obligation relating to the Fourth Tier Special Clearing Charge.

2 No interest shall accrue on Special Clearing Charge Collateral.

3 JSCC may apply Special Clearing Charge Collateral to the performance of the Secured Obligations in the manner prescribed in the Rules.

4 Deposit of Special Clearing Charge Collateral shall be deemed to be deposit for consumption (*shohi kitaku*) without compensation for collateral purpose.

5 Notwithstanding the provisions of the Civil Code or the Commercial Code, a Clearing Participant shall have the right to claim return of Special Clearing Charge Collateral and assert any other claim, only as prescribed in the Rules.

Article 107-2. Deposit of Default Contingent Margin

1 A Clearing Participant other than the Defaulting Clearing Participant shall deposit Default Contingent Margin with JSCC for the purpose of securing the obligations of such Clearing Participant to JSCC in connection with Cleared Contracts, including the obligations arising from the termination of such Cleared Contracts.

2 JSCC may apply the Default Contingent Margin it receives remaining after deduction of costs of liquidation of Eligible Securities Collateral to the performance of the Secured Obligations or offset the right to claim the return of Default Contingent Margin against JSCC's claims with respect to Secured Obligations in the same amount, pursuant to the provisions of the Rules.

3 The calculation method for the required amount of Default Contingent Margin applicable to a non-Defaulting Clearing Participant shall be set forth in the Subordinate Rules¹⁸⁰.

¹⁸⁰ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 31-2.

4 JSCC shall notify a non-Defaulting Clearing Participant of the required amount of Default Contingent Margin in the manner specified in the Subordinate Rules¹⁸¹.

5 Where the sum of the cash and the value of Eligible Securities Collateral deposited with JSCC as Default Contingent Margin falls short of the required amount of Default Contingent Margin, the Clearing Participant shall deposit the amount equal to such shortfall by 11:00 a.m. of the next JSCC Business Day following the day on which such shortfall occurs with JSCC.

6 If at the end of a Default Settlement Period, a balance of deposited Default Contingent Margin remains, that amount shall be credited to the CDS Clearing Fund on behalf of the Clearing Participant and shall be deemed to have been returned to the Clearing Participant at that time.

7 The provisions of Article 61.3, Article 62 and Article 67 shall apply *mutatis mutandis* to Default Contingent Margin.

Article 108. (Deleted)

Article 109. Failure to Deposit Special Clearing Charge Collateral

If a Clearing Participant fails to deposit the Special Clearing Charge Collateral pursuant to the provisions of Article 107.1, such failure shall be deemed a Default of such Clearing Participant and the provisions set forth in this Chapter shall apply.

Article 110. Adjustment upon Determination of Final Loss

1 When the amount of JSCC's claim against a Defaulting Clearing Participant is determined pursuant to the provisions of Article 102.2 and the amount of such claim exceeds the total amount of Excess Default Loss in respect of such Defaulting Clearing Participant, JSCC shall recover its loss in the amount equal to such excess in the order and in the manner set forth in the following items, on the day on which the amount of such claim is determined:

- (1) Application of the First Tier CDS Settlement Guarantee Reserve;
- (2) Application of CDS Clearing Fund deposited by each Clearing Participant other than the Defaulting Clearing Participant with JSCC and the Second Tier CDS Settlement

¹⁸¹ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 31-2.2.

Guarantee Reserve.

The maximum amount of such CDS Clearing Fund that can be used for this purpose shall be the amount of the Required CDS Clearing Fund for the relevant Clearing Participant as of the JSCC Business Day immediately preceding the first date of the Default Settlement Period relating to the relevant Default minus the amount applied pursuant to Article 104;

- (3) Use of the Third Tier Special Clearing Charge payable by each Participant Bearing Third Tier Special Clearing Charge.

The maximum amount that can be used for this purpose shall be the amount of the Third Tier Special Clearing Charge calculated pursuant to the provisions of Article 105.2 as if JSCC's claim were the Excess Default Loss, minus the amount of the Third Tier Special Clearing Charge that has been already paid by such Participant Bearing Third Tier Special Clearing Charge pursuant to the provisions of Article 105.1; and

- (4) Use of the Fourth Tier Special Clearing Charge payable by each Participant Bearing Fourth Tier Special Clearing Charge.

The maximum amount that can be used for this purpose shall be the amount of the Fourth Tier Special Clearing Charge calculated pursuant to the provisions of Article 106.2 as if JSCC's claim were the Excess Default Loss, minus the amount of the Fourth Tier Special Clearing Charge that has been already paid by such Participant Bearing Fourth Tier Special Clearing Charge pursuant to the provisions of Article 106.1.

2 Matters necessary in connection with the recovery of loss set forth in the provisions of Paragraph 1 shall be set forth in the Subordinate Rules¹⁸².

Article 111. Distribution of Amount Collected from Defaulting Clearing Participant

1 After default settlement procedures in respect of a Defaulting Clearing Participant, JSCC shall make the below listed distributions to the Clearing Participants designated by JSCC in the Subordinate Rules¹⁸³ in the manner prescribed in the Subordinate Rules¹⁸⁴:

- (1) When JSCC receives any payment or dividend in respect of its claim against the Defaulting Clearing Participant under the provisions of Article 102.2:

¹⁸² *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 32.

¹⁸³ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 33.

¹⁸⁴ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 34.1.

The amount of such payment and dividend

- (2) When the final amount of JSCC's claim against the Defaulting Clearing Participant under the provisions of Article 102.2 is determined and the amount of the Excess Default Loss is greater than the amount of such claim:

The amount equal to the difference between Excess Default Loss and such final amount.

- 2 If there is no Clearing Participant entitled to the distribution set forth in Paragraph 1, the treatment of such amount shall be subject to the Subordinate Rules¹⁸⁵.

Section 5. Delegation to Subordinate Rules (Article 112)

Article 112. Delegation to Subordinate Rules

In addition to the provisions set forth in this Chapter, matters necessary for settlement of Defaulting Clearing Participant's Cleared Contracts and losses in connection with Default of a Clearing Participant shall be prescribed in the Subordinate Rules¹⁸⁶.

Chapter 11 Miscellaneous Provisions (Articles 113 – 127)

Article 113. Temporary Change to Settlement Cutoff Time

JSCC may temporarily change the time by which the obligations related to Cleared Contracts are to be performed ("Settlement Cutoff Time"), only when JSCC determines it necessary due to failure of the systems necessary for settlement of the Cleared Contracts between JSCC and Clearing Participants or any other reason. In such case, JSCC shall notify all Clearing Participants of the change in advance.

Article 114. Postponement of Settlement Date Due to System Failure

- 1 If JSCC determines it impossible or difficult to perform the obligations relating to the Cleared Contracts in whole or in part on the day when such obligations are to be performed ("Settlement Date") due to failure of the systems necessary for the settlement of the Cleared Contracts between JSCC and Clearing Participants or other circumstances beyond JSCC's reasonable control, JSCC may defer the Settlement Date affected by such reason. In such case, JSCC shall notify the relevant Clearing Participants of such change in advance.

¹⁸⁵ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business, Article 35.

¹⁸⁶ cf. Rules on Default Settlement Regarding Clearing Participants in Relation to CDS Clearing Business.

- 2 Other matters connected with the change of the Settlement Date set forth in Paragraph 1 shall be prescribed by JSCC on each occasion.

Article 115. Act of God

- 1 If JSCC determines that performance of obligations under Cleared Contracts has become impossible or extremely difficult due to an act of God, economic upheaval or other unavoidable reasons, JSCC may modify due date, methods of performance, or other conditions for performance of such obligations by a resolution of the board of directors of JSCC.
- 2 Where JSCC has modified the conditions for performance of the obligations related to Cleared Contracts pursuant to the provisions of Paragraph 1, the Clearing Participants shall observe the conditions so modified.
- 3 In the case set forth in Paragraph 1, if there is an urgent need, JSCC may modify the conditions for performance of the obligations under Cleared Contracts without a resolution of the board of directors of JSCC.

Article 116. Use of Excess Collateral Delivered in relation to CDS Clearing Business for Other Clearing Business Following Clearing Participant Default

JSCC may use any excess collateral delivered by a Defaulting Clearing Participant in relation to CDS Clearing Business to satisfy the Defaulting Clearing Participant's obligation owed to an Other Clearing Business in accordance with the business rules of the Other Clearing Business. Excess collateral is the amount of Initial Margin, Variation Margin, CDS Clearing Fund, Default Contingent Margin and Special Clearing Charge Collateral, or, if they are deposited in the form of Eligible Securities Collateral, the net proceeds from liquidation of such securities after the payment of liquidation costs, of which the Defaulting Clearing Participant otherwise has the right to claim return from JSCC in connection with CDS Clearing Business, that remains after satisfaction of the Defaulting Clearing Participant's obligations in relation to CDS Clearing Business in accordance with the Rules.

Article 117. No Assignment of Claims

Clearing Participants and Customers are prohibited from assigning or committing to assign any of the claims prescribed in these Business Rules, including, but not limited to, the right to claim return of the CDS Clearing Fund or any Margin, to a third party, or furnishing the same as collateral.

Article 118. Outsourcing

1 JSCC may outsource activities related to the CDS Clearing Business specified by JSCC¹⁸⁷ to a person designated by JSCC in a public notice.

2 In addition to these Business Rules, Clearing Participants shall comply with the rules and procedures prescribed by the person designated by JSCC in a public notice pursuant to the provisions of Paragraph 1 in connection with the activities set forth in Paragraph 1 and so approved by JSCC.

3 The provisions of Article 18 shall apply *mutatis mutandis* in the case of Paragraph 1.

Article 119. Provision concerning Matters Necessary in connection with CDS Clearing Business

In addition to the matters prescribed in these Business Rules, when JSCC determines it necessary, JSCC may set Subordinate Rules covering other matters relating to the CDS Clearing Business.

Article 120. Associated Business Activities

JSCC shall conduct businesses associated with the Clearing Service set forth in Article 3.

Article 121. Changes to These Business Rules

1 Any changes to the Rules, establishment of new Subordinate Rules or abolition of any existing Rule shall be implemented by JSCC through a resolution of the board of directors of JSCC; provided that in the case of changes to any Rule other than these Business Rules or in the case of any immaterial change, JSCC may implement such change without a board resolution.

2 If JSCC makes a rule change pursuant to the provisions of Paragraph 1, JSCC shall notify the Clearing Participants of the details thereof before it takes effect in the manner separately prescribed by JSCC¹⁸⁸; provided that such rule change does not affect the claims or obligations of Clearing Participants and Customers or if it is immaterial, such notice may be given promptly after such rule change.

3 When a Clearing Participant receives the notice set forth in Paragraph 2 from JSCC, it shall promptly notify its Customers of the details of the rule change.

4 On and after the effective date of the rule change in accordance with Paragraph 1, JSCC,

¹⁸⁷ cf. Handling Procedures of CDS Clearing Business Rules, Article 58.1.

¹⁸⁸ cf. CDS Clearing Business Rules, Article 125.

the Clearing Participants and the Customers shall comply with the provisions of the Rules after such rule change.

Article 122. CDS Management Committee

1 When JSCC intends any rule change as set forth in Article 121 and if such change relates to any of the matters set forth in the following Items, JSCC shall consult with the CDS Management Committee about whether such change is appropriate or not, and take account of the CDS Management Committee's opinions, unless such change is insignificant:

- (1) Matters related to Subject Transactions for Clearing set forth in Article 4;
- (2) Matters related to the eligibility requirements of CDS Clearing Qualification set forth in Article 9;
- (3) Matters related to CDS Clearing Fund set forth in Article 17;
- (4) Matters related to the renunciation of CDS Clearing Qualification by request of the Clearing Participant set forth in Chapter 2, Section 3;
- (5) Matters related to the actions that may be taken against Clearing Participants set forth in Chapter 2, Section 4;
- (6) Matters related to Margins set forth in Chapter 6;
- (7) Matters related to Settlement set forth in Chapter 8;
- (8) Matters related to Clearing Deposit set forth in Chapter 9;
- (9) Matters related to the actions to be taken in case of Clearing Participant's Failure of Settlement set forth in Chapter 10;
- (10) Matters related to the method for changing the Rules as set forth in Article 121; and
- (11) Matters related to consultation with the CDS Management Committee as set forth in this Article.

2 In addition to the matters set forth in Paragraph 1, matters related to the CDS Management

Committee shall be prescribed in the Subordinate Rules¹⁸⁹.

Article 123. Nature of Rules

Each provision of the Rules shall, within the applicable scope set forth therein, bind JSCC, the Clearing Participants and the Customers collectively. Each Clearing Participant and each Customer hereby agree that either by executing a Clearing Participant Agreement or by submitting a letter of undertaking set forth in Article 42.2, they will assume claims and obligations vis-a-vis other Clearing Participants or other Customers, including those who become Clearing Participants or Customers in the future, in accordance with the Rules without having any separate agreement with such other Clearing Participants or other Customers.

Article 124. Standard Time

Any reference to year, month, day and time in the Rules shall be the reference to year, month, day and time in Japanese Standard Time unless otherwise prescribed in the Rules

Article 125. Method of Notification

JSCC shall separately prescribe the methods of notifications¹⁹⁰, public notices and public announcements to be given by JSCC in accordance with the provisions of the Rules¹⁹¹.

Article 126. Governing Law

- 1 The Rules, including Clearing Participant Agreements and other agreements which are executed in accordance with the Rules, shall be governed by and construed in accordance with Japanese law, except as set forth in Paragraph 2.
- 2 Notwithstanding the provisions of Paragraph 1, matters pertaining to the Terms and Conditions of Cleared Contracts (defined in Paragraph 3) shall be governed by and construed in accordance with English law, unless otherwise specified in such Terms and Conditions of Cleared Contracts; provided that, if the Terms and Conditions of Cleared Contracts expressly states that a specific matter therein should be subject to the Rules, such matter shall be governed by and construed in accordance with Japanese law.
- 3 The “Terms and Conditions of Cleared Contracts” referred to in Paragraph 2 means the provisions applied to Cleared Contracts as listed below:

¹⁸⁹ cf. CDS Manaagement Committee Rules.

¹⁹⁰ cf. Handling Procedures of CDS Clearing Business Rules, Article 59.1.

¹⁹¹ cf. Handling Procedures of CDS Clearing Business Rules, Article 59.3.

- (1) Each provision of the ISDA Master Agreement, the ISDA Credit Derivatives Definitions (or the ISDA Credit Derivatives Definitions (2003 Version) for 2003 Version Cleared Contracts), and STS (or STS (2010 Version) for 2003 Version Cleared Contracts), including modifications, amendments and additions in the Documents Setting Forth Handling of ISDA-Based Documents;
- (2) Each provision of the Documents Setting Forth Handling of ISDA-Based Documents; and
- (3) The provisions of the Rules related to Cleared Contracts separately designated by JSCC¹⁹².

Article 127. Jurisdiction

The Tokyo District Court of Japan shall have the exclusive jurisdiction for the first instance over any legal action which may become necessary between JSCC and any Clearing Participant or Customer in connection with the Rules

Supplementary Provisions

- 1 These Business Rules shall come into force as of 19 July 2011 (hereinafter referred to as "Date of Enforcement").
- 2 JSCC may take the following actions and take necessary procedures and perform any other acts and things in relation thereto even before the Date of Enforcement pursuant to the applicable provisions of these Business Rules, etc.
 - (1) Grant of CDS Clearing Qualification to the Applicant thereof pursuant to the provisions of Paragraph 2 of Article 8 hereof;
 - (2) Conducting of the Examination pursuant to the provisions of Article 9 hereof;
 - (3) Execution of a Clearing Participant Agreement pursuant to the provisions of Article 11 hereof;
 - (4) Acceptance of notification of representative of the Clearing Participant pursuant to the provisions of Article 13 hereof;
 - (5) Acceptance of notification of person in charge of supervising the operation of the settlement of Clearing Contracts pursuant to the provisions of Article 14 hereof; and
 - (6) Acceptance of deposit of CDS Clearing Funds from Clearing Participants pursuant to the provisions of Article 17 hereof.
- 3 The provisions of Article 76 hereof shall not apply until the lapse of six (6) months from

¹⁹² cf. Handling Procedures of CDS Clearing Business Rules, Article 59-2.

the Date of Enforcement.

- 4 In the case where revisions are made to the Credit Derivatives Determinations Committees Rules (meaning the “Credit Derivatives Determinations Committees Rules” published by ISDA), when JSCC determines it necessary to do so taking into account details of such revisions, the trend of overseas clearing organisations and other relevant matters, JSCC shall take necessary measures including amendment to Article 81 and other related provisions of these Business Rules, etc., after examining the powers and authorities of the JSCC Determination Committee, the relationship between JSCC and the JSCC Determination Committee and the Credit Derivatives Determinations Committees and other related matters.

Supplementary Provisions

- 1 These revised Rules shall come into force as of 1 March 2012.
- 2 The provisions of Article 126 after the amendment by these amendment provisions shall be applied to the Clearing Contracts which exist when these amended provisions become effective, provided, however, this shall not preclude the effects arising under the provisions of these Business Rules, etc. before the amendment by these amendment provisions.

Supplementary Provisions

These revised Rules shall come into force as of 31 March 2012.

Supplementary Provisions

These revised Rules shall come into force as of 23 July 2012.

Supplementary Provisions

1. These amendments shall come into force as of March 31, 2013.
2. During the period from March 31, 2013 to March 30, 2014, in applying Article 9, Paragraph 1, Item 2, b.(b), Article 28, Paragraph 3, Item 1, b. and Item 2, b., Article 28, Paragraph 4, Item 2, Article 28, Paragraph 5, Item 1, d. and Article 28, Paragraph 6, Item 2, all as amended, the references to “4.5%” in Article 9, Paragraph 1, Item 2, b.(b) (i), Article 28, Paragraph 5, Item 1, d.(a) and Article 28, Paragraph 6, Item 2, a. shall be read as “3.5%,” the references to “5.625%” in Article 9, Paragraph 1, Item 2, b.(b) (i), Article 28, Paragraph 3, Item 1, b.(a) and Item 2, b.(a), and Article 28, Paragraph 4, Item 2, a. shall be read as “4.375%,” the references to “6%” in Article 9, Paragraph 1, Item 2, b.(b) (ii), Article 28, Paragraph 5, Item 1, d.(b) and Article 28, Paragraph 6, Item 2, b. shall be read as “4.5%,” and the references to “7.5%” in Article 9, Paragraph 1, Item 2, b.(b)(ii), Article 28, Paragraph 3, Item 1, b.(b) and Item 2, b.(b) and Article 28, Paragraph 4, Item 2, b. shall

be read as “5.625%.”

3. During the period from March 31, 2014 to March 30, 2015, in applying Article 9, Paragraph 1, Item 2, b.(b), Article 28, Paragraph 3, Item 1, b. and Item 2, b., Article 28, Paragraph 4, Item 2, Article 28, Paragraph 5, Item 1, d. and Article 28, Paragraph 6, Item 2, all as amended, the references to “4.5%” in Article 9, Paragraph 1, Item 2, b.(b) (i), Article 28, Paragraph 5, Item 1, d.(a) and Article 28, Paragraph 6, Item 2, a. shall be read as “4%,” the references to “5.625%” in Article 9, Paragraph 1, Item 2, b.(b) (i), Article 28, Paragraph 3, Item 1, b.(a) and Item 2, b.(a) and Article 28, Paragraph 4, Item 2, a. shall be read as “5%,” the references to “6%” in Article 9, Paragraph 1, Item 2, b.(b) (ii), Article 28, Paragraph 5, Item 1, d.(b) and Article 28, Paragraph 6, Item 2, b. shall be read as “5.5%”, and the references to “7.5%” in Article 9, Paragraph 1, Item 2, b.(b)(ii), Article 28, Paragraph 3, Item 1, b.(b) and Item 2, b.(b) and Article 28, Paragraph 4, Item 2, b. shall be read as “6.875%.

Supplementary Provisions

These revised Rules shall come into force as of 15 May 2013.

Supplementary Provisions

These revised Rules shall come into force as of 24 February 2014.

Supplementary Provisions

These amended Rules shall be enforced on the date designated by JSCC.

Note: The date designated by JSCC is March 7, 2014.

Supplementary Provisions

These revised Rules shall come into force as of 31 March 2014.

Supplementary Provisions

These revised Rules shall come into force as of 22 September 2014.

Supplementary Provisions

These revised Rules shall come into force as of 15 December 2014.

Supplementary Provisions

These revised Rules shall come into force as of 15 June 2015.

Supplementary Provisions

1 These revised Rules shall come into force as of 24 September 2015.

2 The provisions of Article 78, as amended, shall apply to interest on Variation Margin to

be calculated on and after the date on which these revised Rules shall come into force (hereinafter referred to as the “Effective Date”).

- 3 With respect to interest on Variation Margin to be calculated during the period from the first day of the month in which the Effective Date belongs to the JSCC Business Day immediately preceding the Effective Date, the provisions before amendment shall apply.
- 4 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 Clearing Contracts, these revised Rules shall come into force as of the date designated by JSCC which is on or after 24 September 2015.

Supplementary Provisions

- 1 These revised Rules shall come into force as of 9 March 2016.
- 2 With respect to the handling of Voluntary Terminations (meaning the “Voluntary Termination” defined in Article 2, Paragraph 1, Item (44) of these Rules before the revision) for which JSCC receives applications by the day that is immediately preceding the date of enforcement of these revisions, the provisions of the Rules before revision shall apply.

Supplementary Provisions

These revised Rules shall come into force as of 5 June 2017.

Supplementary Provisions

These revised Rules shall come into force as of 3 July 2017.

Supplementary Provisions

These revised Rules shall come into force as of 6 April 2018.

Supplementary Provisions

- 1 These revised Rules shall come into force on 6 October 2025.
- 2 Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply the revised 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 Clearing Contracts, these revised Rules shall come into force as of the date designated by JSCC which is on or after 6 October 2025.

Attachment 1 : Article 2 (Definition) - Sequenced in Alphabetical order

2003 Version Cleared Contract (Article 2.1.(68))
 Ad Hoc Compression (Article 2.1.(1))
 Business Holiday (Article 2.1.(8))
 CDS Clearing Fund (Article 2.1.(59))
 CDS Clearing Qualification (Article 2.1.(60))
 CDS Transaction (Article 2.1.(61))
 Capital-to-Risk Ratio (Article 2.1.(17))
 Carrying Clearing Broker (Article 2.1.(18)-5)
 Cash Settlement Amount (Article 2.1.(53)-2)
 Cleared Contract (Article 2.1.(27))
 Clearing (Article 2.1.(14))
 Clearing Broker (Article 2.1.(18))
 Clearing Brokerage Account (Article 2.1.(26)-2)
 Clearing Brokerage Agreement (Article 2.1.(25))
 Clearing Brokerage Contract (Article 2.1.(22))
 Clearing Brokerage Original Transaction (Article 2.1.(26))
 Clearing Participant (Article 2.1.(23))
 Clearing Participant Agreement (Article 2.1.(24))
 Compression (Article 2.1.(13)-2)
 Consolidated Capital-to-Risk Ratio (Article 2.1.(57))
 Corporate Group (Article 2.1.(4))
 Credit Event Announcement (Article 2.1.(10))
 Customer (Article 2.1.(21))
 Customer Account (Article 2.1.(1)-8)
 Customer Initial Margin (Article 2.1.(1)-7)
 Customer's Cleared Contract (Article 2.1.(28))
 Default (Article 2.1.(48))
 Default Auction (Article 2.1.(46))
 Default Contingent Margin (Article 2.1.(44))
 Default Determination Date (Article 2.1.(49))
 Default Settlement Period (Article 2.1.(45))
 Defaulting Clearing Participant" (Article 2.1.(47))
 Documents Setting Forth Handling of ISDA-Based Documents (Article 2.1.(63))
 Early Termination (Article 2.1.(5))
 Early Termination Charge (Article 2.1.(6))

Eligible CDS Transaction (Article 2.1.(39))
 Eligible Securities Collateral (Article 2.1.(37))
 Failure of Settlement (Article 2.1.(11))
 First Tier CDS Settlement Guarantee Reserve (Article 2.1.(31))
 Floating Payment (Article 2.1.(52))
 Fourth Tier Special Clearing Charge (Article 2.1.(35))
 Fourth Tier Special Clearing Charge Collateral (Article 2.1.(36))
 Funds (Article 2.1.(9))
 ISDA (Article 2.1.(62))
 ISDA Credit Derivatives Definitions (2003 Version) (Article 2.1.(65)-2)
 ISDA Credit Derivatives Definitions (Article 2.1.(65))
 ISDA Master Agreement" (Article 2.1.(64))
 Index CDS Transaction (Article 2.1.(1)-9)
 Initial Margin (Article 2.1.(41))
 Issue (Article 2.1.(56))
 JSCC Business Day (Article 2.1.(40))
 Japanese Standard (Article 2.1.(13))
 Legal Entity (Article 2.1.(54))
 Margin (Article 2.1.(19))
 Net Capital (Article 2.1.(16))
 Net Present Value (Article 2.1.(20))
 Non-resident (Article 2.1.(51))
 Notional Amount (Article 2.1.(30))
 Officer (Article 2.1.(58))
 Other Clearing Business (Article 2.1.(38))
 Parent Company (Article 2.1.(2))
 Parental Guarantee (Article 2.1.(3))
 Position Transfer (Article 2.1.(18)-2)
 Position Transfer Requested Cleared Contract (Article 2.1.(18)-4)
 Pre-Definition Update Cleared Contracts (Article 2.1.(20)-3)
 Proprietary Account (Article 2.1.(17)-2)
 Proprietary Cleared Contract (Article 2.1.(29))
 Receiving Clearing Participant (Article 2.1.(1)-4)
 Receiving Customer (Article 2.1.(1)-3)
 Rules (Article 2.1.(55))
 STS (2010 Version) (Article 2.1.(67))
 STS (Article 2.1.(66))
 Second Tier CDS Settlement Guarantee Reserve (Article 2.1.(32))

Second Tier Clearing Participant Cap (Article 2.1.(32)-2)
 Settlement Amount (Article 2.1.(10)-2)
 Single Name CDS Transaction (Article 2.1.(20)-2)
 Special Clearing Charge (Article 2.1.(42))
 Special Clearing Charge Collateral (Article 2.1.(43))
 Subordinate Rules (Article 2.1.(7))
 Substituted Initial Margin (Article 2.1.(15))
 Successful Bid Amount (Article 2.1.(58)-2)
 Successor Clearing Broker (Article 2.1.(18)-3)
 Third Tier Special Clearing Charge (Article 2.1.(33))
 Third Tier Special Clearing Charge Collateral (Article 2.1.(34))
 Transfer (Article 2.1.(1)-2)
 Transferring Clearing Participant (Article 2.1.(1)-6)
 Transferring Customer (Article 2.1.(1)-5)
 Uniform International Standard (Article 2.1.(12))
 Variation Margin (Article 2.1.(53))

Note : Some of the terminology used in Japan Financial Instruments and Exchange Act, such as such “Assumption of Obligation” or “Brokerage for Securities, etc.”(English Translation of the corresponding Japanese word) are replaced with commonly used terminology, such as “Clearing” or “Clearing Brokerage”, so that non-Japanese readers could understand easily.

Attachment 2: Terms not Defined in Article 2

Definition	Provision in which it is defined	Provisions to which such definition apply
CDS Clearing Business	Article 1.1	All
Subject Transaction for Clearing	Article 4	All
Applicant	Article 8.2	All
Qualification Date	Article 8.4	Articles 8 to 12
Guaranteed Applicant	Article 8.5	Articles 8 to 12
Special Operator	Article 9.1.(2).a.(c)	All
Financial Institution subject to Japanese Standard	Article 9.1.(2).b.(c)	All
Required CDS Clearing Fund	Article 17.2	All
Demerged Participant	Article 40.1	Article 40
Taking-over Participant	Article 40.1	Article 40
Taken-over Contracts	Article 40.1	Article 40
Merged Participant	Article 40-2.1	Article 40-2
Taken-over Customer	Article 40-2.1	Article 40-2
Taken-over Contracts	Article 40-2.1	Article 40-2
Merged Customer	Article 40-3.1	Article 40-3
Taking-over Participant	Article 40-3.1	Article 40-3
Taken-over Contracts	Article 40-3.1	Article 40-3
Merged Customer	Article 40-4.1	Article 40-4
Taking-over Customer	Article 40-4.1	Article 40-4
Taken-over Contracts	Article 40-4.1	Article 40-4
Compression Conditions	Article 53.1	All
Ad Hoc Compression Conditions	Article 53-2.1	All
Designated Counterparty	Article 54.1	All
Original Counterparty	Article 54.4	Articles 54.4 & 58
Transferring Customer	Article 58-2.1	Articles 58-2 & 58-3
Receiving Clearing Participant	Article 58-2.1	Articles 58-2 & 58-3
Receiving Customer	Article 58-2.1	Articles 58-2 & 58-3
Transferring Clearing Participant	Article 58-4.1	Articles 58-4 & 58-5
Receiving Customer	Article 58-4.1	Articles 58-4 & 58-5
Clearing Participant Account	Article 59.1	All
Proprietary Account	Article 59.2	All
Customer Account	Article 59.2	All

Sub-Accounts	Article 59.6	All
Clearing Brokerage Account	Article 60.1	All
Clearing Brokerage Sub-Account	Article 60.2	Article 60
Obligations to be Collateralized	Article 61.1	Article 61.2
Initial Margin Deposited Amount	Article 66.1	All
Required Additional Deposit Amount	Article 70.2	All
Clearing Participant Net Payable	Article 80-2.1	Article 80-2
JSCC Net Payable	Article 80-2.2	Article 80-2
Material Matter(s) concerning Credit Event	Article 81.1	All
Failed Participant	Article 90.1	All
Matters for Consultation	Article 93.1	Article 93.2
Hedge Transactions	Article 94.1	All
Successor Clearing Broker	Article 95.1	All
Position Transfer Date	Article 95.4.(1)	All
Default Auction	Article 96.1	All
Auction Transactions	Article 96.2	All
Unsettled Obligations	Article 102.1	All
Defaulting Clearing Participant Payment Amount	Article 102.1.(2).a.	All
Initial Loss-Determination Date	Article 103.1	All
Excess Default Loss	Article 104.1	All
Prorated Excess Default Loss	Article 104.2.(1).i)	All
Allocated CDS Clearing Fund	Article 104.2.(1).ii)	All
Allocated Second Tier Clearing Participant Cap	Article 104.2.(1).iii)	All
Allocated Second Tier CDS Settlement Guarantee Reserve	Article 104.2.(1).iv)	All
Allocated Total Second Tier Clearing Participants Contributions	Article 104.2.(2)	Article 104.2
Bid Exempted Participant	Article 104.2.(3)	Article 104.2
Participants Bearing Third Tier Special Clearing Charge	Article 105.1	Article 105
Participants Bearing Fourth Tier Special Clearing Charge	Article 106.1	Article 106

Secured Obligations	Article 107.1	Article 107.3
Settlement Cutoff Time	Article 113	All
Settlement Date	Article 114	All