

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

Chapter 1 General Provisions

(Article 1 Purpose)

The purpose of these Rules on Default Settlement Regarding Clearing Participants in relation to CDS Clearing Business (hereinafter referred to as “these Rules”) is to set forth the matters necessary for the holding of the Auction for Default Settlement and the procedures for settlement of, and treatment of losses from, the Clearing Contracts of Defaulting Clearing Participants resulting from the Default, etc. of any Clearing Participant in accordance with the CDS Clearing Business Rules (hereinafter referred to as “Business Rules”) established by Japan Securities Clearing Corporation (hereinafter referred to as “JSCC”).

(Article 2 Definitions)

The terms used in these Rules shall have the meanings as prescribed in the Business Rules unless otherwise specified in these Rules, and the terms listed in each Item below shall have the meanings defined in each such Item:

- (1) “Resources for Loss Recovery” means the Fixed Resources for Loss Recovery and the Liquid Resources for Loss Recovery to be appropriated in accordance with the Business Rules, etc. to recover the losses which JSCC may incur upon the Default, etc. of any Clearing Participant.
- (2) “Fixed Resources for Loss Recovery” means the First Tier CDS Settlement Guarantee Reserve, the Second Tier CDS Settlement Guarantee Reserve and the CDS Clearing Fund deposited with JSCC by each Clearing Participant other than the Defaulting Clearing Participant (up to the Required CDS Clearing Fund Amount of each Clearing Participant as of the Default Determination Date in respect of the Defaulting Clearing Participant).
- (3) “Liquid Resources for Loss Recovery” means the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge.
- (4) Deleted
- (5) “Primary Auction for Default Settlement” means the Primary Auction for Default Settlement as defined in Paragraph 1 of Article 13 hereof.
- (6) “Secondary Auction for Default Settlement” means the Secondary Auction for Default Settlement as defined in Paragraph 1 of Article 16 hereof.
- (7) “Additional Auction for Default Settlement” means the Additional Auction for Default Settlement as defined in Paragraph 1 of Article 16-2 hereof.
- (8) “Date of Primary Auction for Default Settlement” means the date of holding of the Primary Auction for Default Settlement to be determined by JSCC on a case-by-case basis based on the advice of the Default Management Committee.
- (9) “Date of Secondary Auction for Default Settlement” means the date of holding of the Secondary Auction for Default Settlement.
- (10) “End Date of Auction for Default Settlement” means the day on which successful bid is made for the total sum of Notional Amounts of the Subject Transactions for Auction at the Auction for Default Settlement.

- (11) “Successful Bidder Participant” means the Clearing Participant who has won a bid on the Subject Transaction for Auction at the Auction for Default Settlement.

(Article 3 Provision for First Tier CDS Settlement Guarantee Reserve, etc.)

- 1 JSCC will set aside 1.5 billion Japanese Yen as the First Tier CDS Settlement Guarantee Reserve.
- 2 In the case where all or part of the First Tier CDS Settlement Guarantee Reserve is used in accordance with the Business Rules, etc., JSCC will set aside the same amount as the portion so used as First Tier CDS Settlement Guarantee Reserve at each occasion. The sum total of the reserve under the provisions of this Paragraph shall not be more than 1.5 billion Japanese Yen.

(Article 4 Provision for Second Tier CDS Settlement Guarantee Reserve, etc.)

- 1 JSCC will set aside 1.5 billion Japanese Yen as the Second Tier CDS Settlement Guarantee Reserve.
- 2 In the case where all or part of the Second Tier CDS Settlement Guarantee Reserve is used in accordance with the Business Rules, etc., JSCC will set aside the same amount as the portion so used as Second Tier CDS Settlement Guarantee Reserve at each occasion. The sum total of the reserve under the provisions of this Paragraph shall not be more than 1.5 billion Japanese Yen.

(Article 5 Principle of Individual Settlement of Default, etc.)

Unless otherwise set forth in the Business Rules, etc., the calculation of the Early Termination Fee upon the determination of the Default, etc. in respect of two or more Clearing Participants, the Succession set forth in Paragraph 1 of Article 95 of the Business Rules in the manner set forth in the same Article, the implementation of the Hedge Transactions and the holding of the Auction for Default Settlement, the mutual discussion held in accordance with Article 97 of the Business Rules and the agreement reached in accordance with Paragraph 2 of the said Article or execution of the Compulsory Termination of all the Clearing Contracts upon failure of such agreement, the calculation and payment of the Special Clearing Charge payable by each Clearing Participant to JSCC, the calculation and deposit of the Special Clearing Charge Collateral by each Clearing Participant with JSCC, the calculation and recovery of the Loss Resulting from Default Settlement (including the reduction of the First Tier CDS Settlement Guarantee Reserve, the Second Tier CDS Settlement Guarantee Reserve, and/or the CDS Clearing Fund for the purpose of the recovery), the adjustments required upon determination of the amount of claims of JSCC against the Defaulting Clearing Participant and other matters related to the determination of the Default, etc. as well as the application of the relevant provisions of the Business Rules, etc. to these matters shall be performed and handled in respect of each Defaulting Clearing Participant on a case-by-case basis.

(Article 6 Early Termination Fees Regarding Clearing Contracts of Defaulting Clearing Participant)

- 1 The amount of the Early Termination Fee to be paid and received between JSCC and the relevant Defaulting Clearing Participant upon the Compulsory Termination of the Clearing

Contracts of Defaulting Clearing Participant in accordance with Article 92 of the Business Rules shall be calculated in such occasion by such method as set forth in each of the following Items.

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

In the case where the Resulted Net Amount (which means the total amounts paid or payable by JSCC, net of the total amounts received or receivable by JSCC; hereinafter the same in this Article) of the amounts set forth in a. through d. below is a positive value, the amount equal to the absolute value of the Resulted Net Amount shall be the total amount of the Early Termination Fees payable to JSCC by the Defaulting Clearing Participant in respect of the Clearing Contracts of Defaulting Clearing Participant. In the case where the Resulted Net Amount is a negative value, the amount equivalent to the absolute value of the Resulted Net Amount shall be the total amount of the Early Termination Fees payable to the Defaulting Participant by JSCC for the Clearing Contracts of Defaulting Clearing Participant.

- a. The Successful Bid Amount paid and received between JSCC and the relevant Clearing Participant upon the execution of the Subject Transaction for Auction;
- b. The Fixed Amounts, the Floating Payments and other amounts of money which should have been paid or received between JSCC and the Defaulting Clearing Participant if there is no Compulsory Termination of the Clearing Contracts of Defaulting Clearing Participant (excluding the Variation Margins and the amount set forth in c. below) and the Fixed Amounts, the Floating Payments and other amounts of money (excluding the Variation Margins and the amount set forth in c. below) paid and received between JSCC and the relevant Clearing Participant in connection with the Hedge Transactions, during the period from the Default Determination Date to the End Date of Auction for Default Settlement;
- c. The amount of the acquisition price and the acquisition expenses for the Deliverable Obligations Delivered by JSCC to the relevant Clearing Participant and the amount of the disposal price and the disposal expenses for the Deliverable Obligations Delivered by the relevant Clearing Participant to JSCC, as the case may be, upon the Physical Settlement conducted, if any, during the period from the Default Determination Date to the End Date of Auction for Default Settlement in respect of the JSCC Matched CDS Contracts deemed to have been executed in accordance with the provisions of Appendix 3 of the Handling Procedures of CDS Business Rules between JSCC and the Clearing Participant who is a party to the JSCC Matched CDS Transactions and the Physical Settlement Amount paid and received between JSCC and the Clearing Participant; and

- d. The Initial Payment Amount paid and received between JSCC and the counterparty to the Hedge Transaction upon the execution of the Hedge Transaction by JSCC in accordance with Article 94 of the Business Rules.
- (2) In the case where the Auction for Default Settlement is held but all or part of the Subject Transaction for Auction failed to be executed due to an agreement reached or failed to be reached through the mutual discussion held in accordance with Paragraph 1 of Article 97 of the Business Rules:
- In the case where the Resulted Net Amount of the amounts set forth in a. through d. below is a positive value, the amount equal to the absolute value of the Resulted Net Amount shall be the total amount of the Early Termination Fees payable to JSCC by the Defaulting Clearing Participant in respect of the Clearing Contracts of Defaulting Clearing Participant. In the case where the Resulted Net Amount is a negative value, the amount equivalent to the absolute value of the Resulted Net Amount shall be the total amount of the Early Termination Fees payable to the Defaulting Participant by JSCC for the Clearing Contracts of Defaulting Clearing Participant.
- a. The Successful Bid Amount that would have been paid and received between JSCC and the relevant Clearing Participant had the failed Subject Transaction for Auction been executed;
 - b. The Fixed Amounts, the Floating Payments and other amounts of money which should have been paid or received between JSCC and the Defaulting Clearing Participant if there is no Compulsory Termination of the Clearing Contracts of Defaulting Clearing Participant (excluding the Variation Margins and the amount set forth in c. below) and the Fixed Amounts, the Floating Payments and other amounts of money (excluding the Variation Margins and the amount set forth in c. below) paid and received between JSCC and the relevant Clearing Participant in connection with the Hedge Transactions, during the period from the Default Determination Date to the End Date of Auction for Default Settlement;
 - c. The amount of the acquisition price and the acquisition expenses for the Deliverable Obligations Delivered by JSCC to the relevant Clearing Participant and the amount of the disposal price and the disposal expenses for the Deliverable Obligations Delivered by the relevant Clearing Participant to JSCC, as the case may be, upon the Physical Settlement conducted, if any, during the period from the Default Determination Date to the End Date of Auction for Default Settlement in respect of the JSCC Matched CDS Contracts deemed to have been executed in accordance with the provisions of Appendix 3 of the Handling Procedures of CDS Business Rules between JSCC and the Clearing Participant who is a party to the JSCC Matched CDS Transactions and the Physical Settlement Amount paid and received between JSCC and the Clearing Participant; and
 - d. The Initial Payment Amount paid and received between JSCC and the

counterparty to the Hedge Transaction upon the execution of the Hedge Transaction by JSCC in accordance with Article 94 of the Business Rules.

(3) In the absence of the Auction for Default Settlement:

In the case where the Resulted Net Amount of the amounts set forth in a. through c. below is a positive value, the amount equal to the absolute value of the Resulted Net Amount shall be the total amount of the Early Termination Fees payable to JSCC by the Defaulting Clearing Participant in respect of the Clearing Contracts of Defaulting Clearing Participant. In the case where the Resulted Net Amount is a negative value, the amount equal to the absolute value of the Resulted Net Amount shall be the total amount of the Early Termination Fees payable to the Defaulting Participant by JSCC for the Clearing Contracts of Defaulting Clearing Participant.

- a. The amount of Variation Margins, the Fixed Amounts, the Floating Payments and other amounts of money (excluding the amount set forth in b. below) which should have been paid or received between JSCC and the Defaulting Clearing Participant if there is no Compulsory Termination of the Clearing Contracts of Defaulting Clearing Participant and the amount of the Variation Margins, the Fixed Amounts, the Floating Payments and other amounts of money (excluding the amount set forth in b. below) paid and received between JSCC and the relevant Clearing Participant in connection with the Hedge Transactions, during the period from the Default Determination Date to the date of execution (or the JSCC Business Day immediately after the equivalent date) of the Hedge Transaction made by JSCC for the purpose of reconstruction of the CDS Transactions constituting the Clearing Contracts of Defaulting Clearing Participant (or the latest of two or more such dates, if applicable) (hereinafter referred to as "Reconstruction Completion Date");
- b. The amount of the acquisition price and the acquisition expenses for the Deliverable Obligations Delivered by JSCC to the relevant Clearing Participant and the amount of the disposal price and the disposal expenses for the Deliverable Obligations Delivered by the relevant Clearing Participant to JSCC, as the case may be, upon the Physical Settlement conducted, if any, during the period from the Default Determination Date to the Reconstruction Completion Date in respect of the JSCC Matched CDS Contracts deemed to have been executed in accordance with the provisions of Appendix 3 of the Handling Procedures of CDS Business Rules between JSCC and the Clearing Participant who is a party to the JSCC Matched CDS Transactions and the Physical Settlement Amount paid and received between JSCC and the Clearing Participant; and
- c. The Initial Payment Amount paid and received between JSCC and the counterparty to the Hedge Transaction referred to in a. above upon the execution thereof.

- 2 For the purpose of the calculation of the amounts set forth in Item (1)c., Item (2)c. and Item (3)b. of the preceding Paragraph upon the determination of the Default, etc. in respect of two or more Clearing Participants, in cases where the position (which means whether the Buyer or the Seller; hereinafter the same in this Paragraph) of JSCC and the Floating Rate Payer Calculation Amount in respect of the JSCC Matched CDS Transactions deemed to have been executed in accordance with the provisions of Appendix 3 of the Handling Procedures of CDS Business Rules is neither the same nor equal to the position of the Defaulting Clearing Participant and the Floating Rate Payer Calculation Amount in respect of the Matched CDS Contracts or the JSCC Matched CDS Transactions (hereinafter collectively referred to as “Matched CDS Contracts, etc.” in this Paragraph) deemed to have been executed in accordance with the provisions of Appendix 3 of the Handling Procedures of CDS Business Rules on the assumption that the Clearing Contracts of Defaulting Clearing Participant have not been terminated yet at the time of the Physical Settlement (which shall be added by the Notional Amount of the Hedge Transaction executed, if any, by JSCC in accordance with Article 94 of the Business Rules in the case where the position of the Defaulting Clearing Participant is the same as the position of JSCC in the Hedge Transaction or reduced by the Notional Amount of the Hedge Transaction in the case where the position of the Defaulting Clearing Participant is not the same as the position of JSCC in the Hedge Transaction; hereinafter the same in this Paragraph), the amounts set forth in Item (1)c., Item (2)c. and Item (3)b. of the preceding Paragraph shall be adjusted by multiplying them by the Floating Rate Payer Calculation Amount for the Matched CDS Contracts (or the negative amount with the same absolute value as the Floating Rate Payer Calculation Amount in the case where the position of the Defaulting Clearing Participant in the Matched CDS Contracts is not the same as the position of JSCC in the JSCC Matched CDS Transaction) and by dividing the product of the multiplication by the Floating Rate Payer Calculation Amount for the JSCC Matched CDS Transaction.

(Article 7 Implementation of Hedge Transactions)

- 1 The counterparty to the Hedge Transaction to be implemented by JSCC in accordance with Article 94 of the Business Rules shall be a Clearing Participant who is not a Defaulting Clearing Participant.
- 2 Each Hedge Transaction shall be an Eligible CDS Transaction.
- 3 Upon the execution of any Hedge Transaction, JSCC and the counterparty thereto shall pay and receive the Initial Payment Amount in the agreed amount on the JSCC Business Day immediately after the date of execution of the Hedge Transaction.
- 4 In addition to the preceding three Paragraphs, JSCC will determine the counterparty to, and the terms and conditions of, each Hedge Transaction and other matters necessary for the implementation of the Hedge Transactions on a case-by-case basis based on the advice of the Default Management Committee.
- 5 In cases where the Clearing Participant is to enter the Hedge Transaction executed between itself and JSCC on the account of the Clearing Customer, the Hedge Transaction shall be

regarded as a Clearing Contract (Customer Account) executed through the entrustment of Brokerage for Clearing of Securities, etc. by the Clearing Customer to the Clearing Participant and the legal relationship between the Clearing Participant and the Clearing Customer under the Hedge Transaction shall be regarded as a Clearing Brokerage Contract for the Hedge Transaction that is regarded as a Clearing Contract (Customer Account) in accordance with this Paragraph.

(Article 8 Succession of Clearing Contracts (Customer Account))

- 1 The period to be prescribed by JSCC in its Rules as set forth in Paragraph 1 of Article 95 of the Business Rules shall be the period ending on the day that is as close as possible to the Default Determination Date in light of the status of the relevant CDS Transactions, possible losses JSCC may incur and other circumstances and shall be specifically prescribed by JSCC on a case-by-case basis based on the advice of the Default Management Committee.
- 2 In the case where JSCC determines the period in accordance with the preceding Paragraph, JSCC shall immediately notify thereof to the Clearing Participants and make public announcement.
- 3 The terms and conditions to be prescribed by JSCC in its Rules as set forth in Items 1 and 2 of Paragraph 1 of Article 95 of the Business Rules shall be as follows.
 - (1) Issue; and
 - (2) Notional Amount.
- 4 JSCC, the Successor Clearing Participant and the Clearing Customer shall pay and receive the amount payable upon the Succession, unpaid Fixed Amounts (excluding those due between JSCC and the Defaulting Clearing Participant at the time of determination of the Default, etc. in respect of the Defaulting Clearing Participant; hereinafter the same in this Article) and the Variation Margin prescribed in Item 3 of Paragraph 4 of Article 95 of the Business Rules in accordance with the procedures set forth in the following Items.
 - (1) The amount payable upon the Succession shall be equal to the Resulted Net Amount of the Variation Margins (which means the total amount of the Variation Margins paid, net of the total amount of the Variation Margins received; hereinafter the same in this Article and Article 22) deposited with the Defaulting Clearing Participant by the Clearing Customer on or prior to the Default Determination Date in respect of the relevant Clearing Contracts (Customer Account) (which means the Relevant Clearing Contracts (Customer Account) prescribed in Paragraph 4 of Article 95 (the text before subparagraphs therein) of the Business Rules; hereinafter the same in this Article). The amount payable upon the Succession shall be paid by JSCC to the Successor Clearing Participant and then by the Successor Clearing Participant to the Clearing Customer in the case where the Resulted Net Amount is a positive value and by the Clearing Customer to the Successor Clearing Participant and then by the Successor Clearing Participant to JSCC in the case where the Resulted Net Amount is a negative value.

- (2) The unpaid Fixed Amounts shall be the total of the Fixed Amounts to be paid and received during the period from the Default Determination Date (or the JSCC Business Day immediately after the Default Determination Date that is the Fixed Rate Payer Payment Date, if the payment and receipt of the Fixed Amounts have been completed on such date) to the date of Succession in the assumed case where the Relevant Clearing Contracts (Customer Account) have not been terminated yet as of the Default Determination Date.
 - (3) The amount of the Variation Margin shall be equal to the amount of the Variation Margins to be paid and received in the assumed case where the Clearing Contracts (Customer Account) regarded to have been executed in accordance with Item 2 of Paragraph 4 of Article 95 of the Business Rules have been executed as the new Clearing Contracts at the time of termination of the Relevant Clearing Contract (Customer Account) during the period from such time to the JSCC Business Day immediately after the date of the Succession.
 - (4) The balance after the payments and receipts of the amount payable upon the Succession, the unpaid Fixed Amounts and the Variation Margins under the preceding three Items shall be paid and received between JSCC and the Successor Clearing Participant and between the Successor Clearing Participant and the Clearing Customer, respectively, on the JSCC Business Day immediately after the date of the Succession. In the case where the Clearing Customer is a Non-resident, however, the balance shall be paid and received between the Successor Clearing Participant and the Clearing Customer on or prior to the second JSCC Business Day after the date of the Succession.
- 5 The Early Termination Fee for the Relevant Clearing Contract (Customer Account) set forth in Item 6 of Paragraph 4 of Article 95 of the Business Rules shall be equal to the amount of the Resulted Net Amount of the Variation Margins deposited with the Defaulting Clearing Participant by JSCC on or prior to the Default Determination Date in respect of the Relevant Clearing Contracts (Customer Account). The Early Termination Fee shall be paid by the Defaulting Clearing Participant to JSCC in the case where the Resulted Net Amount is a positive value and by JSCC to the Defaulting Clearing Participant in the case where the Resulted Net Amount is a negative value. In this case, the Variation Margins paid and received between JSCC and the Defaulting Clearing Participant with regard to the Relevant Clearing Contract (Customer Account) shall be appropriated to the payment of the obligations with regard to the Early Termination Fees as a matter of course without either the actual return of the Variation Margins or the actual payment and receipt of the Early Termination Fees.

Chapter 2 Auction for Default Settlement

(Article 9 Obligation to Participate in Auction for Default Settlement)

- 1 The Clearing Participants other than the Defaulting Clearing Participant(s) (excluding the Clearing Participants who satisfy all the requirements set forth below and Clearing Participants who are Specified Successor Financial Institutions) shall be obligated to

participate in the Auction for Default Settlement (excluding the Auction for Default Settlement related to a notification submitted by any particular Clearing Participant to the effect that it is difficult for the Participant to participate in any of the Auctions for Default Settlement as prescribed by JSCC due to unavoidable circumstances (excluding any deficiency in its internal control structure or other reasons attributable to the Clearing Participant itself).

- (1) It has applied for the renunciation of its CDS Clearing Qualification pursuant to Paragraph 1 of Article 22 of the Business Rules; and
 - (2) All the Clearing Contracts to which it is a party have been cancelled.
- 2 The CDS Clearing Fund deposited with JSCC by a Clearing Participant who has not participate in the Auction for Default Settlement by satisfying all the requirements set forth in each Item of the preceding Paragraph shall be deemed as the CDS Clearing Fund set forth in Item 5.a of Paragraph 2 of Article 104 of the Business Rules and reduced in the order set forth in the said Item and such Clearing Participant shall pay the Third Tier Special Clearing Charge as the Subject Clearing Participant set forth in Item 1.d (a) of Paragraph 1 of Article 27 hereof in the order set forth in Item 1.d of the said Paragraph.
- 3 Each Clearing Participant participating in the Auction for Default Settlement (hereinafter referred to as "Default Settlement Bid Participant") shall make a bid at the Auction for Default Settlement by offering a bid price constituting an appropriate and reasonable market price.

(Article 10 Basic Matters regarding Auction for Default Settlement)

- 1 JSCC will hold the Auction for Default Settlement based on the advice of the Default Management Committee and in accordance with the following procedures.
 - (1) In respect of each Issue involved in the CDS Transactions constituting the Clearing Contracts of Defaulting Clearing Participant (other than those set forth in the following Items) and the CDS Transactions forming offsetting positions of the Hedge Transactions (which means the CDS Transactions upon the same terms and conditions as the Hedge Transactions, regardless of whether JSCC is the Seller or the Buyer), JSCC will be the Seller in the case where its selling position is exceeding its buying position for the Issue (which means the case where the total Notional Amount of the CDS Transactions made by JSCC as the Seller is exceeding the total Notional Amount of the CDS Transactions made by JSCC as the Buyer) and the CDS Transactions, the Notional Amount of which is equal to the excess amount (i.e., the total Notional Amount of the CDS Transactions made by JSCC as the Seller, net of the total Notional Amount of the CDS Transactions made by JSCC as the Buyer) shall constitute the Subject Transaction for Auction. JSCC will be the Buyer in the case where its buying position is exceeding its selling position for the Issue (which means the case where the total Notional Amount of the CDS Transactions made by JSCC as the Buyer is exceeding the total Notional Amount of the CDS Transactions made by JSCC as the Seller) and the CDS Transactions, the Notional Amount of which is equal to the excess amount (i.e., the total Notional Amount of the CDS Transactions made

by JSCC as the Buyer, net of the total Notional Amount of the CDS Transactions made by JSCC as the Seller) shall constitute the Subject Transaction for Auction. JSCC may, however, establish the Subject Transaction for Auction different from either of those set forth above, if JSCC deems it necessary in light of the status of the CDS Transactions and other circumstances.

- a. Those corresponding to the Clearing Contracts (Customer Account) succeeded to by the Successor Clearing Participant in accordance with Article 95 of the Business Rules before the holding of the Auction for Default Settlement;
 - b. Those for the Reference Entity in respect of which the occurrence of a Credit Event (limited to either the Bankruptcy or the Failure to Pay for Clearing Contracts of Defaulting Clearing Participant that are the 2003 Version Clearing Contracts) is determined in accordance with Article 81 of the Business Rules before the holding of the Auction for Default Settlement; and
 - c. Those that are the 2003 Version Clearing Contracts and for the Reference Entity in respect of which the occurrence of a Credit Event (limited to the Restructuring) is determined in accordance with Article 81 of the Business Rules before the holding of the Auction for Default Settlement and JSCC or a Clearing Participant has given the Credit Event Notice in accordance with Article 83 of the Business Rules.
- (2) JSCC may divide any Subject Transaction for Auction into more than one position if JSCC deems it necessary in light of the status of the CDS Transactions and other circumstances and hold more than one Auction for Default Settlement for each of such positions.
 - (3) The unit of bidding at the Auction for Default Settlement (or each Auction for Default Settlement for each of the multiple positions divided as prescribed in the preceding paragraph; the same shall apply hereinafter in this paragraph.) (hereinafter referred to as "Auction Unit"), shall be either the entire Subject Transactions for Auction put forward at such Auction for Default Settlement (or part of the Subject Transactions for Auction excluding those executed in the Primary Auction for Default Settlement in the case of the Secondary Auction for Default Settlement set forth in Paragraph 1 of Article 16 held, if any, under the said Article) (hereinafter referred to as "Individual Subject Transaction for Auction") processed in block according to the One Participant Winning All Method or a group of positions with the same Notional Amount processed according to the Bid-by-Bid Method. JSCC may, however, establish any different Auction Unit and/or make necessary adjustments to the division, if JSCC deems it necessary in light of the status of the CDS Transactions and other circumstances.
 - (4) Notwithstanding Item (1), in the case of determination of the occurrence of the Credit Event in accordance with Article 81 of the Business Rules or the Succession Date, etc.

in accordance with Article 84 of the Business Rules in respect of the Reference Entity involved in the CDS Transaction forming offsetting position of the Clearing Contract of Defaulting Clearing Participant or the Hedge Transaction, the details of the Subject Transaction for Auction shall be adjusted to reflect the determination.

- (5) Each Default Settlement Bid Participant shall make a bid at each Auction for Default Settlement for each Auction Unit at each Auction for Default Settlement set forth in Item (3) by offering the bid price, which shall be equal to the Successful Bid Amount in the positive or negative value to be paid and received between JSCC and the Successful Bidder Participants upon the execution of each such Subject Transaction for Auction, on the Date of Auction for Default Settlement no later than the time set forth in Paragraph 1 of Article 13 for the Primary Auction for Default Settlement, in Paragraph 1 or 2 of Article 16 for the Secondary Auction for Default Settlement or in Paragraph 1 of Article 16-2 for the Additional Auction for Default Settlement.
- 2 The method of determining the successful bid price and the Successful Bidder Participants, the method of bidding and other matters necessary for the Auction for Default Settlement in the case where the Subject Transaction for Auction is executed under the proviso of Item (1) of the preceding Paragraph or where JSCC establishes any different Auction Unit and/or makes necessary adjustments to the division under the proviso of Item (3) of the preceding Paragraph shall be determined by JSCC on a case-by-case basis based on the advice of the Default Management Committee, notwithstanding other provisions of these Rules.
- 3 In the case where JSCC determines the method of determining the successful bid price and the Successful Bidder Participants, the method of bidding and any other matters necessary for the Auction for Default Settlement in accordance with the preceding Paragraph, JSCC will notify the Default Settlement Bid Participants of the fact and details of the determination prior to the holding of the Auction for Default Settlement.

(Article 11 Notional Amount Requirement)

JSCC will notify the Default Settlement Bid Participants of the minimum amount of the Notional Amount to be bid at each Auction for Default Settlement (hereinafter referred to as “Notional Amount Requirement”) before the holding of each Auction for Default Settlement.

(Article 12 Bidding Amount)

- 1 Each Default Settlement Bid Participant shall make sure that the total Notional Amount with regard to one or more Auction Units to be bid by itself at each Auction for Default Settlement shall be no less than the Notional Amount Requirement.
- 2 Each Default Settlement Bid Participant who is going to make a bid for two or more Auction Units at each Auction for Default Settlement may offer the different bid prices between the Auction Units. In this case, the Default Settlement Bid Participant shall make sure that the total Notional Amount with regard to one or more Auction Units to be bid at the same price at each Auction for Default Settlement shall be no less than 25% of the Notional Amount Requirement notified by JSCC in accordance with the preceding Article.

(Article 13 Holding of Primary Auction for Default Settlement)

- 1 JSCC will hold the Auction for Default Settlement for all Individual Subject Transactions for Auction (hereinafter referred to as “Primary Auction for Default Settlement”) from 9:00 a.m. to 9:30 a.m. on the Primary Date of Auction for Default Settlement. Provided, however, JSCC may change the time for the Primary Auction for Default Settlement based on the advice of the Default Management Committee.
- 2 The Notional Amount Requirement of each Default Settlement Bid Participant for the Auction for Default Settlement for each Individual Subject Transaction for Auction at the Primary Auction for Default Settlement (hereinafter referred to as “Individual Primary Auction for Default Settlement”) shall be determined by JSCC by prorating the total Notional Amount of the Individual Subject Transactions for Auction at each Individual Primary Auction for Default Settlement multiplied by 1.15 in proportion to the Required CDS Clearing Fund Amount of each Default Settlement Bid Participant as of the Default Determination Date.
- 3 In addition to those set forth in the preceding two Paragraphs, the terms and conditions for the holding of each Individual Primary Auction for Default Settlement and other matters necessary for the holding of each Individual Primary Auction for Default Settlement shall be determined by JSCC on a case-by-case basis based on the advice of the Default Management Committee.
- 4 At the Individual Primary Auction for Default Settlement, the Notional Amounts of the respective bids are added up in the order of the bid prices from the lowest until the total amount reaches the total of the Notional Amount of each Individual Subject Transaction for Auction and at this point the bid price of the Notional Amount added at last shall be the successful bid price and the Default Settlement Bid Participants having offered the bid prices equal to or lower than the successful bid price shall be the Successful Bidder Participants.
- 5 If, in the case of the preceding Paragraph, the total of the Notional Amounts of the bid prices equal to or lower than the successful bid price exceeds the total of the Notional Amount of each Individual Subject Transaction for Auction, the bids offered at the bid price equal to the successful bid price shall be adjusted by drawing, proration in proportion to the number of bids made or any other method determined in advance by JSCC based on the advice of the Default Management Committee.
- 6 Prior to the holding of the Primary Auction for Default Settlement, JSCC will notify the Default Settlement Bid Participants of the matters necessary for the holding of each Individual Primary Auction for Default Settlement.

(Article 14 Procedures for Primary Auction for Default Settlement)

- 1 In the case where the estimated Successful Bid Amount at the Secondary Auction for Default Settlement or the Additional Auction for Default Settlement assumed to be held after each Individual Primary Auction for Default Settlement, at which the Notional Amounts of the respective bids are added up in the order of the bid prices from the lowest until the total amount reaches such percentage of the total Notional Amount of the Individual Subject

Transactions for Auction as determined by JSCC on a case-by-case basis and at this point the Individual Primary Auction for Default Settlement is closed at the bid price of the Notional Amount added at last, is expected to fall below the Successful Bid Amount at each Individual Primary Auction for Default Settlement assumed to result in the winning of the bids for the Individual Subject Transactions for Auction up to the total Notional Amount in full, JSCC may determine that the bid price at which the total Notional Amount reaches such percentage as mentioned above shall be the successful bid price, notwithstanding Paragraph 4 of the preceding Article, based on the advice of the Default Management Committee.

- 2 The percentage to be determined under the preceding Paragraph shall be no less than 80%.
- 3 The provision of Paragraph 5 of the preceding Article shall apply *mutatis mutandis* to the case of the Paragraph 1. In this case “the total Notional Amount of each Individual Subject Transactions for Auction” shall be replaced with “such percentage of the total Notional Amount of Individual Subject Transactions for Auction as determined by JSCC on a case-by-case basis”.

(Article 15 Execution of Subject Transactions for Auction at Primary Auction for Default Settlement)

- 1 JSCC will ensure that the successful bid price and the Successful Bidder Participants of each Individual Primary Auction for Default Settlement shall be determined immediately after the end of each Individual Primary Auction for Default Settlement.
- 2 In the case where JSCC ensures the determination of the successful bid price and the Successful Bidder Participants of each Individual Primary Auction for Default Settlement pursuant to the preceding Paragraph, all or part of Individual Subject Transactions for Auction put up for each Individual Primary Auction for Default Settlement shall be executed between JSCC and the Successful Bidder Participants, respectively, at the time of such determination.
- 3 Upon determination of the successful bid price and the Successful Bidder Participants of each Individual Primary Auction for Default Settlement pursuant to Paragraph 1 of this Article, JSCC will immediately notify each Clearing Participant other than the Defaulting Clearing Participant of the successful bid price and whether such Clearing Participant is the Successful Bidder Participant or not (hereinafter referred to as “Bid Result”).
- 4 Notwithstanding the provisions of the preceding three Paragraphs, in the case where the successful bid price and the Successful Bidder Participants of each Individual Primary Auction for Default Settlement are determined, if the total sum of the Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge to be borne by any Clearing Participant (excluding the Defaulting Clearing Participant) exceeds the total sum of the Initial Margin for Clearing Contracts (Own Accounts), Default Contingent Margin, Third Tier Special Clearing Charge Collateral and Fourth Tier Special Clearing Charge Collateral actually deposited with JSCC by such Clearing Participant, the successful bid price and the Successful Bidder Participants of the Auction for Default Settlement shall be determined as prescribed in each Item below or an Individual Primary Auction for Default Settlement shall

be held again.

- (1) JSCC shall notify each Clearing Participant (excluding the Defaulting Clearing Participant; the same shall apply in this Paragraph) of the provisional Bid Result immediately after the end of each Individual Primary Auction for Default Settlement.
- (2) JSCC shall notify of the amount of Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge to be borne by each Clearing Participant in the case where the successful bid price and the Successful Bidder Participants for such Individual Primary Auction for Default Settlement are assumed to be determined and the amount of the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral to be deposited with JSCC pursuant to the provisions of Item 2 of Article 29 and Item 2 of Article 30 hereof by 10:30 a.m. of the Date of Primary Auction for Default Settlement.
- (3) If all the Clearing Participants deposit with JSCC in full by 0:30 p.m. of the Date of Primary Auction for Default Settlement the Third Tier Special Clearing Charge Collateral and Fourth Tier Special Clearing Charge Collateral to be deposited with JSCC, JSCC shall immediately determine the successful bid price and the Successful Bidder Participants for each such Individual Primary Auction for Default Settlement. The provisions of Paragraph 2 and Paragraph 3 shall be applied *mutatis mutandis* to the case where JSCC determines the successful bid price and the Successful Bidder Participants for each Individual Primary Auction for Default Settlement pursuant to this Item.
- (4) In the cases other than those prescribed in the preceding Item, such Individual Primary Auction for Default Settlement fails and an Individual Primary Auction for Default Settlement shall be held again on the JSCC Business Day immediately following the Date of the Primary Auction for Default Settlement in accordance with the provisions of Article 9 through this Article.

(Article 16 Holding of Secondary Auction for Default Settlement)

- 1 In the case where the successful bid price is determined for any Individual Primary Auction for Default Settlement pursuant to Paragraph 1 of Article 14 and JSCC determines that it will hold another Auction for Default Settlement (hereinafter referred to collectively as "Secondary Auction for Default Settlement") based on the advice of the Default Management Committee in respect of the Subject Transactions for Auction, the total Notional Amount of which shall be the balance of the total Notional Amount of the Individual Subject Transactions for Auction put up for the Individual Primary Auction for Default Settlement after deduction of the total Notional Amount of the Individual Subject Transactions for Auction executed at the Individual Primary Auction for Default Settlement, it shall hold the Secondary Auction for Default Settlement from 10:30 a.m. to 11:00 a.m. on the Date of Primary Auction for Default Settlement. Provided, however, JSCC may change the time for the Secondary Auction for Default Settlement based on the advice of the Default Management Committee.

- 2 Notwithstanding the provisions of the preceding Paragraph, if the successful bid price and the Successful Bidder Participants are determined pursuant to the provisions of Paragraph 4 of the preceding Article, the Secondary Auction for Default Settlement shall be held from 9:00 a.m. to 9:30 a.m. on the JSCC Business Day immediately following the Date of Primary Auction for Default Settlement. Provided, however, JSCC may change the time for the Secondary Auction for Default Settlement based on the advice of the Default Management Committee.
- 3 Prior to the holding of the Secondary Auction for Default Settlement, JSCC will notify the Default Settlement Bid Participants of the relevant information related to the bids offered at the Individual Primary Auction for Default Settlement (hereinafter referred to as “Related Individual Primary Auction for Default Settlement”) in respect of Individual Subject Transactions for Auction put up for the Secondary Auction for Default Settlement (hereinafter referred to as “Individual Secondary Auction for Default Settlement”).
- 4 JSCC will determine the Notional Amount Requirement for each Default Settlement Bid Participant at each Individual Secondary Auction for Default Settlement, which shall be obtained by deducting the excess in the successful bid amount (which means the balance of the Successful Bid Amount in Related Individual Primary Auction for Default Settlement after deduction of the Notional Amount Requirement in Related Individual Primary Auction for Default Settlement, if the balance is a positive value) or adding the shortage in the successful bid amount (which means the balance of the Notional Amount Requirement in Related Individual Primary Auction for Default Settlement after deduction of the Successful Bid Amount in Related Individual Primary Auction for Default Settlement, if the balance is a positive value), as the case may be, from or to the amount determined by JSCC by multiplying the total Notional Amount of the Individual Subject Transactions for Auction put up for the Individual Secondary Auction for Default Settlement by 1.15, and prorating the product of the multiplication in proportion to the Required CDS Clearing Fund Amount of each Default Settlement Bid Participant as of the Default Determination Date.
- 5 “Successful Bid Amount in Related Individual Primary Auction for Default Settlement” referred to in the preceding Paragraph means the total Notional Amount of the Subject Transactions for Auction executed with the respective Default Settlement Bid Participants as a result of the Related Individual Primary Auction for Default Settlement in accordance with Article 100 of the Business Rules and Article 15 of these Rules and “Notional Amount Requirement in Related Individual Primary Auction for Default Settlement” referred to in the said Paragraph means the Notional Amount Requirement of each Default Settlement Bid Participant at the Related Individual Primary Auction for Default Settlement.
- 6 The provisions of Paragraphs 2 through 6 of Article 13 shall apply *mutatis mutandis* to each Individual Secondary Auction for Default Settlement.

(Article 16-2 Holding of Additional Auction for Default Settlement)

- 1 In the case where the successful bid price is determined at any of the Individual Primary Auctions for Default Settlement pursuant to Paragraph 1 of Article 14 and JSCC determines that it will hold an additional Auction for Default Settlement (hereinafter referred to

collectively as “Additional Auction for Default Settlement”) based on the advice of the Default Management Committee in respect of the Individual Subject Transactions for Auction, the total Notional Amount of which shall be the balance of the total Notional Amount of the Individual Subject Transactions for Auction put up for the Individual Primary Auction for Default Settlement after deduction of the total Notional Amount of the Individual Subject Transactions for Auction to be executed at the Individual Primary Auction for Default Settlement, it shall hold the Additional Auction for Default Settlement from 10:30 a.m. to 11:00 a.m. on the Date of Primary Auction for Default Settlement. Provided, however, JSCC may change the time for the Additional Auction for Default Settlement based on the advice of the Default Management Committee.

- 2 Prior to the holding of the Additional Auction for Default Settlement, JSCC will notify the Default Settlement Bid Participants of the relevant information related to the bids offered at the Individual Primary Auction for Default Settlement in respect of each Individual Subject Transaction for Auction to be put up for the Additional Auction for Default Settlement (hereinafter referred to as “Individual Additional Auction for Default Settlement.”
- 3 In each Individual Additional Auction for Default Settlement, the amounts and prices of the bids other than those to be won in the Individual Primary Auction for Default Settlement related to the Individual Additional Auction for Default Settlement shall be carried over, in which case the Clearing Participant who made such bid may make changes in respect of such bid only if it is changed to a lower price.
- 4 The Default Settlement Bid Participant may make an additional bid in the Additional Auction for Default Settlement.
- 5 The Notional Amount Requirement shall not be specified for each Default Settlement Bid Participant in the Additional Auction for Default Settlement.
- 6 The provisions of Paragraphs 3 through 6 of Article 13 shall apply *mutatis mutandis* to the Additional Auction for Default Settlement.

(Article 17 Execution of Subject Transactions for Auction at Secondary Auction for Default Settlement)

- 1 In the case where the Secondary Auction for Default Settlement is held, JSCC will ensure that the successful bid price and the Successful Bidder Participants of each Individual Secondary Auction for Default Settlement shall be determined immediately after the end of each Individual Secondary Auction for Default Settlement.
- 2 In the case where JSCC ensures the determination of the successful bid price and the Successful Bidder Participants of each Individual Secondary Auction for Default Settlement pursuant to the preceding Paragraph, all Individual Subject Transactions for Auction put up for each such Secondary Auction for Default Settlement shall be executed between JSCC and the Successful Bidder Participants at the time of such determination.
- 3 Upon determination of the successful bid price and the Successful Bidder Participants of each

Individual Secondary Auction for Default Settlement pursuant to the preceding Paragraph, JSCC will immediately notify each Clearing Participant other than the Defaulting Clearing Participant of the Bid Result.

4 Notwithstanding the provisions of the preceding three Paragraphs, in the case where the successful bid price and the Successful Bidder Participants of each Individual Secondary Auction for Default Settlement are determined, if the total sum of the Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge to be borne by any Clearing Participant (excluding the Defaulting Clearing Participant) exceeds the total sum of the Initial Margin for Clearing Contracts (Own Accounts), Default Contingent Margin, Third Tier Special Clearing Charge Collateral and Fourth Tier Special Clearing Charge Collateral actually deposited with JSCC by such Clearing Participant, the successful bid price and the Successful Bidder Participants of each Individual Secondary Auction for Default Settlement shall be determined as prescribed in each Item below or an Individual Secondary Auction for Default Settlement shall be held again.

- (1) JSCC shall notify each Clearing Participant (excluding the Defaulting Clearing Participant; the same shall apply in this Paragraph) of the provisional Bid Result immediately after the end of each Individual Secondary Auction for Default Settlement.
- (2) JSCC shall notify of the amount of Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge to be borne by each Clearing Participant in the case where the successful bid price and the Successful Bidder Participants for each such Individual Secondary Auction for Default Settlement are assumed to be determined and the amount of the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral to be deposited with JSCC pursuant to the provisions of Item 2 of Article 29 and Item 2 of Article 30 hereof by 0:00 p.m. of the Date of Secondary Auction for Default Settlement (or, in the case where Paragraph 2 of Article 16 is applied, 10:30 a.m. of the Date of Secondary Auction for Default Settlement).
- (3) If all the Clearing Participants deposit with JSCC in full by 2:00 p.m. of the Date of Secondary Auction for Default Settlement (or, in the case where Paragraph 2 of Article 16 is applied, 0:30 p.m. of the Date of Secondary Auction for Default Settlement) the Third Tier Special Clearing Charge Collateral and Fourth Tier Special Clearing Charge Collateral to be deposited with JSCC, JSCC shall immediately determine the successful bid price and the Successful Bidder Participants for each Individual Secondary Auction for Default Settlement. The provisions of Paragraph 2 and Paragraph 3 shall be applied *mutatis mutandis* to the case where JSCC determines the successful bid price and the Successful Bidder Participants for each Individual Secondary Auction for Default Settlement pursuant to this Item.
- (4) In the cases other than those prescribed in the preceding Item, the Auction for Default Settlement fails and an Individual Secondary Auction for Default Settlement shall be held again on the JSCC Business Day immediately following the Date of the

Individual Secondary Auction for Default Settlement in accordance with the provisions of Article 9 through this Article hereof.

(Article 17-2 Execution of Subject Transactions for Auction at Additional Auction for Default Settlement)

- 1 Notwithstanding the provisions of Article 15 hereof, in the case where the Individual Additional Auction for Default Settlement is held, the determination of the successful bid price and the Successful Bidder Participants and the execution, etc. of the Subject Transactions for Auction in respect of the Individual Primary Auction for Default Settlement related to the Individual Additional Auction for Default Settlement (hereinafter referred to as “Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement”) shall be prescribed in this Article.
- 2 In the case where the Individual Additional Auction for Default Settlement is held, JSCC will ensure that the successful bid price and the Successful Bidder Participants of the Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement and the Additional Auction for Default Settlement shall be determined respectively, immediately after the end of the Individual Additional Auction for Default Settlement.
- 3 In the case where JSCC ensures the determination of the successful bid prices and the Successful Bidder Participants of each Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement and each Individual Additional Auction for Default Settlement pursuant to the preceding Paragraph, all Subject Transactions for Auction put up for the Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement and the Individual Additional Auction for Default Settlement shall be executed between JSCC and the Successful Bidder Participants at the time of such determination.
- 4 Upon determination of the successful bid prices and the Successful Bidder Participants of the Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement and the Individual Additional Auction for Default Settlement pursuant to the preceding Paragraph, JSCC will immediately notify each Clearing Participant other than the Defaulting Clearing Participant of the Bid Result.
- 5 Notwithstanding the provisions of the preceding three Paragraphs, in the case where the successful bid prices and the Successful Bidder Participants of the Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement and the Individual Additional Auction for Default Settlement are determined, if the total sum of the Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge to be borne by any Clearing Participant (excluding the Defaulting Clearing Participant) exceeds the total sum of the Initial Margin for Clearing Contracts (Own Accounts), Default Contingent Margin, Third Tier Special Clearing Charge Collateral and Fourth Tier Special Clearing Charge Collateral actually deposited with JSCC by such Clearing Participant, the successful bid prices and the Successful Bidder Participants of the Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement and the Individual Additional Auction for Default Settlement shall be determined as prescribed in each Item

below or an Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement shall be held again.

- (1) JSCC shall notify each Clearing Participant (excluding the Defaulting Clearing Participant; the same shall apply in this Paragraph) of the relevant provisional Bid Result immediately after the end of the Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement and the Individual Additional Auction for Default Settlement.
- (2) JSCC shall notify of the amount of the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge to be borne by each Clearing Participant in the case where the successful bid prices and the Successful Bidder Participants for the Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement and the Individual Additional Auction for Default Settlement are assumed to be determined and the amount of the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral to be deposited with JSCC pursuant to the provisions of Item 2 of Article 29 and Item 2 of Article 30 hereof by 0:00 p.m. of the Date of Primary Auction for Default Settlement.
- (3) If all the Clearing Participants deposit with JSCC in full by 2:00 p.m. of the Date of Primary Auction for Default Settlement the Third Tier Special Clearing Charge Collateral and Fourth Tier Special Clearing Charge Collateral to be deposited with JSCC, JSCC shall immediately determine the successful bid prices and the Successful Bidder Participants for the Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement and the Individual Additional Auction for Default Settlement. The provisions of Paragraph 2 and Paragraph 3 shall be applied *mutatis mutandis* to the case where JSCC determines the successful bid prices and the Successful Bidder Participants for the Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement and the Individual Additional Auction for Default Settlement pursuant to this Item.
- (4) In the cases other than those prescribed in the preceding Item, the Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement and the Individual Additional Auction for Default Settlement fail and an Individual Primary Auction for Default Settlement related to the Additional Auction for Default Settlement shall be held again on the JSCC Business Day immediately following the Date of the Primary Auction for Default Settlement in accordance with the provisions of Article 9 through this Article hereof.

(Article 18 Participation of Clearing Participant on Customer Account in Auction for Default Settlement)

- 1 The Clearing Participant on Customer Account may participate in the Auction for Default Settlement through the entrustment by the Clearing Customer. In this case the Clearing Participant on Customer Account shall make the bid with the distinction between the bidding on its own account and the bidding through the entrustment by the Clearing Customer.

- 2 If, in the case of the preceding Paragraph, the Clearing Participant on Customer Account wins the bid for all or a part of the Subject Transactions for Auction, these Subject Transactions for Auction shall be executed between JSCC and the Clearing Participant on Customer Account on the account of the Clearing Customer.
- 3 In the case of the preceding Paragraph, the Subject Transaction for Auction executed between JSCC and the Clearing Participant on Customer Account referred to in the said Paragraph shall be regarded as a Clearing Contract (Customer Account) executed through the entrustment of Brokerage for Clearing of Securities, etc. by the Clearing Customer referred to in the said Paragraph to the Clearing Participant on Customer Account and the legal relationship between the Clearing Participant on Customer Account and the Clearing Customer under the Subject Transaction for Auction shall be regarded as a Clearing Brokerage Contract for the Subject Transaction for Auction that is regarded as a Clearing Contract (Customer Account) in accordance with this Paragraph.

(Article 19 Payment and Receipt of Successful Bid Amount, etc. upon Execution of Subject Transaction for Auction)

- 1 The amount to be prescribed by JSCC in its Rules as set forth in Paragraph 2 of Article 100 of the Business Rules shall be the Successful Bid Amount.
- 2 JSCC and each Clearing Participant shall pay and receive the Successful Bid Amount and the Variation Margin set forth in Paragraph 2 of Article 100 of the Business Rules with regard to the Individual Subject Transactions for Auction executed between them pursuant to Article 100 of the Business Rules and Article 15, Article 17 and Article 17-2 of these Rules in accordance with the following.
 - (1) The Successful Bid Amount shall be equal to the successful bid price of each Individual Subject Transaction for Auction. In the case where the successful bid price is in a negative value, the Successful Bidder Participant shall pay to JSCC the absolute value of the successful bid price as the Successful Bid Amount.
 - (2) The Variation Margin shall be in the amount of the Variation Margin to be paid and received on the JSCC Business Day immediately after the Date of Primary Auction for Default Settlement in respect of a Subject Transaction for Auction for the Primary Auction for Default Settlement or the Additional Auction for Default Settlement or the Date of Secondary Auction for Default Settlement in respect of a Subject Transaction for Auction for the Secondary Auction for Default Settlement, on which such Individual Subject Transaction for Auction is assumed to have been executed as a new Clearing Contract.
 - (3) JSCC and the Clearing Participant shall pay and receive the net balance after the payments and receipts of the Successful Bid Amount and the Variation Margin pursuant to the preceding two Items on the JSCC Business Day immediately after the Date of Primary Auction for Default Settlement in respect of those for the Primary Auction for Default Settlement or the Additional Auction for Default Settlement or on the JSCC Business Day immediately after the Date of Secondary Auction for Default

Settlement in respect of those for the Secondary Auction for Default Settlement.

- 3 The procedures to be taken upon execution of Subject Transaction for Auction as set forth in Paragraph 4 of Article 100 of the Business Rules shall be the procedures for recording of necessary information in the Trade Information Warehouse provided by The Warehouse Trust Company LLC and other procedures prescribed by JSCC on a case-by-case basis.

Chapter 3 Mutual Discussion

(Article 20 Method of Mutual Discussion, etc.)

- 1 Prior to the determination of the successful bid price and the Successful Bidder Participants at the Auction for Default Settlement held, if any, JSCC will estimate the Loss Resulting from Default Settlement which JSCC may incur upon the execution of the Subject Transactions for Auction at each Auction for Default Settlement. In the case where the estimated amount is found to exceed the Resources for Loss Recovery, JSCC will immediately discuss with the Clearing Participants (excluding the Defaulting Clearing Participant(s); hereinafter the same in this Article and the following Article) in accordance with Article 97 of the Business Rules.
- 2 Each Clearing Participant shall authorise the Representative of Committee Member of its Management Committee (or the representative of the Clearing Participant or any person representing or acting as an agent for the Clearing Participant in the absence of the Representative of Committee Member) to have the discussion with JSCC pursuant to the preceding Paragraph and to enter into an agreement with JSCC in accordance with Article 97 of the Business Rules.
- 3 The date and time and the method of holding of the discussion and other necessary matters for the discussion required by Article 97 of the Business Rules shall be determined by JSCC on a case-by-case basis.
- 4 JSCC will notify all the Clearing Participants in advance of the matters determined by JSCC in connection with the holding of the discussion in accordance with the preceding Paragraph.
- 5 In case where the discussion is to commence in accordance with Article 97 of the Business Rules, JSCC will not determine either the successful bid price or the Successful Bidder Participant of each Auction for Default Settlement, notwithstanding Paragraph 1 of Article 15, Paragraph 1 of Article 17 and Paragraph 2 of Article 17-2 hereof.

(Article 21 Discussion Period)

The period to be prescribed by JSCC in its Rules as set forth in Paragraph 1 of Article 98 of the Business Rules shall continue until the second JSCC Business Day from the Date of Primary Auction for Default Settlement (or, in the case where the Secondary Auction for Default Settlement is held, the Date of Secondary Auction for Default Settlement), which may be extended, however, if agreed to by JSCC and all the Clearing Participants.

(Article 22 Compulsory Termination of All Clearing Contracts)

- 1 In the case where all Clearing Contracts are terminated in accordance with Paragraph 1 of

Article 98 of the Business Rules, JSCC and the relevant Clearing Participant shall pay and receive the Early Termination Fees based on the clearing price as of the date of the termination. The amount of the Early Termination Fees to be paid and received in this case shall be equal to the Resulted Net Amount of the Variation Margins to be deposited by JSCC with the Clearing Participant on or prior to the JSCC Business Day immediately after the date of the termination. The Early Termination Fees shall be paid by JSCC to the Clearing Participant in the cases where the Resulted Net Amount is a positive value and by the Clearing Participant to JSCC in the case where the Resulted Net Amount is a negative value. The Variation Margin paid and received between JSCC and the Clearing Participant in respect of each Clearing Contract shall be appropriated to payment of the obligations related to the Early Termination Fees as a matter of course.

2 JSCC and the Clearing Participant shall pay the Early Termination Fee for the Clearing Contract or return the Variation Margin deposited for the Clearing Contract, as the case may be, in respect of each Clearing Contract set forth in the preceding Paragraph in such occasion by such method as set forth in each of the following Items:

- (1) In the case where the obligation to pay the Early Termination Fee still remains after the appropriation pursuant to the preceding Paragraph, the Early Termination Fee shall be paid immediately to the other party.
- (2) In the case where the Variation Margin still remains after the appropriation pursuant to the preceding Paragraph, the Variation Margin shall be paid immediately to the other party.

3 In addition to those set forth in the preceding two Paragraphs, the matters relating to the termination of the Clearing Contracts and the settlement of claims and obligations upon the termination pursuant to Article 98 of the Business Rules shall be determined by JSCC on a case-by-case basis.

Chapter 4 Loss Sharing by Other Clearing Participants

(Article 23 Initial Loss-Determination Date)

The Initial Loss-Determination Date prescribed in Paragraph 1 of Article 103 of the Business Rules shall be such day in such occasion as set forth in each of the following Items:

- (1) The Date of Primary Auction for Default Settlement, in the case where all the Subject Transactions for Auction put up for each Individual Primary Auction for Default Settlement are to be executed between JSCC and the Successful Bidder Participants in accordance with Article 15;
- (2) The Date of Secondary Auction for Default Settlement, in the case where all the Subject Transactions for Auction put up for each Individual Secondary Auction for Default Settlement are to be executed between JSCC and the Successful Bidder Participants in accordance with Article 17;
- (3) The Date of Primary Auction for Default Settlement, in the case where all the Subject Transactions for Auction put up for each Individual Primary Auction for Default

Settlement and each Individual Additional Auction for Default Settlement are to be executed between JSCC and the Successful Bidder Participants in accordance with Article 17-2;

- (4) The date of an agreement reached, if any, pursuant to Paragraph 2 of Article 97 of the Business Rules or the date set forth in the agreement;
- (5) The JSCC Business Day immediately after the day on which all the Clearing Contracts are terminated in accordance with Paragraph 1 of Article 98 of the Business Rules; or
- (6) The date determined by JSCC on a case-by-case basis in the absence of the Auction for Default Settlement.

(Article 24 Losses to be Excluded from Loss Resulting from Default Settlement)

1 The losses of JSCC to be prescribed by JSCC in its Rules as set forth in Paragraph 1 of Article 104 of the Business Rules shall be the loss to be incurred by JSCC upon the termination of all the Clearing Contracts pursuant to Paragraph 1 of Article 98 of the Business Rules in the amount corresponding to the amount set forth in Item (2)a. of Paragraph 1 of Article 6.

2 Other losses of JSCC to be prescribed by JSCC in its Rules as set forth in Paragraph 1 of Article 104 of the Business Rules shall be the losses to be incurred by JSCC upon the termination of all the Clearing Contracts pursuant to Paragraph 1 of Article 98 of the Business Rules in the amount corresponding to the absolute value of the Resulted Net Amount (which means the total amounts paid by JSCC, net of the total amounts received by JSCC) in respect of the amounts set forth in the following Items in the case where the Resulted Net Amount is a positive value.

- (1) The net amount of JSCC's gross receipt and gross payment related to the Variation Margins, the Fixed Amounts, the Floating Payments and other amounts of money which should be paid or received between JSCC and the Defaulting Clearing Participant in respect of the Clearing Contracts of Defaulting Clearing Participant (excluding the amount set forth in Item (2)) and the Variation Margins, the Fixed Amounts, the Floating Payments and other amounts of money to be paid and received between JSCC and the Clearing Participants in relation to the Hedge Transactions during the period from the next day of the Date of Primary Auction for Default Settlement to the Initial Loss-Determination Date (excluding the amount set forth in Item (2)); and
- (2) The amount of the acquisition price and the acquisition expenses for the Deliverable Obligations Delivered by JSCC to the relevant Clearing Participant and the amount of the disposal price and the disposal expenses for the Deliverable Obligations Delivered by the relevant Clearing Participant to JSCC, as the case may be, upon the Physical Settlement conducted, if any, during the period from the next day of the Date of Primary Auction for Default Settlement to the Initial Loss-Determination Date in respect of the JSCC Matched CDS Contracts deemed to have been executed in accordance with the provisions of Appendix 3 of the Handling Procedures of CDS Business Rules between JSCC and the Clearing Participant who is a party to the JSCC Matched CDS Transactions and the Physical Settlement Amount paid and received

between JSCC and the Clearing Participant.

- 3 The provisions of Paragraph 2 of Article 6 shall apply *mutatis mutandis* to the case of calculating the amount set forth in Item (2) of the preceding Paragraph.
- 4 The price prescribed by JSCC in its Rules as a price extremely deviated from the prevailing market as prescribed in Item 5.b of Paragraph 2 of Article 104 of the Business Rules shall be any price which is deemed to be extremely deviated from the prevailing market by the Default Management Committee in view of the composition and size of each Individual Subject Transactions for Auction, market condition of CDS Transactions and other circumstances, and which exceeds the successful bid price added by the amount equivalent to the degree of deviation determined by JSCC on a case-by-case basis based on the advice of the Default Management Committee.
- 5 JSCC shall, prior to the holding of the Individual Primary Auction for Default Settlement, notify the Default Settlement Bid Participants of the degree of deviation determined by JSCC pursuant to the preceding Paragraph.
- 6 The manner prescribed by JSCC in its Rules as prescribed in Item 5.c of Paragraph 2 of Article 104 of the Business Rules shall be the manner set forth in each Item below:
 - (1) In respect of each bid placed by each Clearing Participant set forth in Item 5.c of Paragraph 2 of Article 104 of the Business Rules at each Individual Primary Auction for Default Settlement (limited to each bid placed by each Clearing Participant until when the sum of the Notional Amount corresponding thereto, which shall be calculated in the order of the lowest bid price, reaches the Notional Amount Requirement in respect of such Clearing Participant), the prorated amount of the Allocated Amount of the Second Tier Clearing Participant Bearing Limit (hereinafter referred to as “Prorated Amount of the Allocated Amount of the Second Tier Clearing Participant Bearing Limit”) in respect of such bid shall be calculated as the total sum of the Notional Amounts for such bids divided by the Notional Amount Requirement at the Individual Primary Auction for Default Settlement in respect of the Clearing Participant having offered such bids and then multiplied by the Allocated Amount of the Second Tier Clearing Participant Bearing Limit in respect of such Clearing Participant.
 - (2) The total sum of the Prorated Amount of the Allocated Amount of the Second Tier Clearing Participant Bearing Limit applied to each Clearing Participant in respect of each bid referred to in Item 1 above shall be calculated for each bid placed until when the aggregate amount of the Prorated Amount of the Allocated Amount of the Second Tier Clearing Participant Bearing Limit corresponding thereto, which shall be calculated in the order of the highest bid price, reaches the total sum of the Allocated Amount of the Second Tier Clearing Participant Bearing Limits deducted by the total sum reduced under Items 5.a and 5.b of Paragraph 2 of Article 104 of the Business Rules.

(Article 25) deleted

(Article 26 Payment Method of Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge)

The Clearing Participants shall pay the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge to JSCC by the method of appropriation of the Special Clearing Charge Collateral deposited with JSCC to the payment thereof.

(Article 27 Amount of Third Tier Special Clearing Charge, etc.)

1 The amount of the Third Tier Special Clearing Charge to be prescribed by JSCC in its Rules as set forth in Paragraph 2 of Article 105 of the Business Rules shall be as set forth in the following Items in such occasion as set forth therein.

- (1) In the case where the amount of the Loss Resulting from Default Settlement in respect of the Defaulting Clearing Participant after the recovery of loss pursuant to Article 104 of the Business Rules is less than the total amount of the Required CDS Clearing Fund Amount in respect of each Clearing Participant (excluding the Defaulting Clearing Participant) on 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 falls (if each such Clearing Participant bears the Third Tier Special Clearing Charge in respect of any other Default, etc. determined in the same Default Settlement Period by no later than the Auction for Default Settlement in respect of such Defaulting Clearing Participant, the said total amount of the Required CDS Clearing Fund Amount deducted by the amount so borne; hereinafter referred to as “Third Tier Special Clearing Charge Limit” in this Paragraph)

The amounts set forth in a. through c. below:

- a. The amount of the Loss Resulting from Default Settlement in respect of the Defaulting Clearing Participant after the recovery of loss pursuant to Article 104 of the Business Rules and the amount of the Third Tier Special Clearing Charge shall be prorated according to the amount obtained by subtracting the amount set forth in Item (1) b. of Paragraph 2 of Article 104 of the Business Rules from the amount set forth in Item (1) a. of Paragraph 2 of Article 104 respectively (hereinafter referred to as “Third Tier Prorated Amount of Such Loss Resulting from Default Settlement” and “Allocated Amount of Third Tier Special Clearing Charge Limit.”)

- b. The total sum of the Allocated Amounts of the Third Tier Special Clearing Charge of the Exempted Clearing Participant (which refers to the amount of the Third Tier Special Clearing Charge for each Auction for Default Settlement; the same shall apply hereinafter) (referred to as “Total Amount Borne by Exempted Clearing Participants” in this Paragraph) and the total sum of the Allocated Amount of the Third Tier Special Clearing Charge of each Participant Bearing Third Tier Special Clearing Charge (excluding the Exempted Clearing Participant) (hereinafter referred to as “Total Allocated Amount Borne by Non-exempted Clearing Participant” in this Paragraph) shall be the Third Tier Prorated Amount of Loss Resulting from Default Settlement

prorated in proportion to the total sum of the Allocated Amount of the Third Tier Special Clearing Charge Limit of the Exempted Clearing Participant and the total sum of the Allocated Amount of the Third Tier Special Clearing Charge Limit of each Participant Bearing Third Tier Special Clearing Charge (excluding the Exempted Clearing Participant).

c. The allocated amount of the Third Tier Special Clearing Charge of each Exempted Clearing Participant shall be the Total Allocated Amount Borne by Exempted Clearing Participants prorated in proportion to the Allocated Amount of the Third Tier Special Clearing Charge Limit of each Exempted Clearing Participant.

d. The allocated amount of the Third Tier Special Clearing Charge of each Participant Bearing Third Tier Special Clearing Charge (excluding the Exempted Clearing Participant) for each Auction for Default Settlement shall be the amounts set forth in (a) through (c) below in accordance with the order set forth in (a) through (c) below:

(a) The allocated amount of the Third Tier Special Clearing Charge borne by a Participant Bearing Third Tier Special Clearing Charge who has not participated in the Auction for Default Settlement in respect of such Defaulting Clearing Participant (excluding the Exempted Clearing Participant but including the Clearing Participant who has not made a bid in the amount not less than the Notional Amount Requirement; hereinafter referred to as "Subject Clearing Participant" in this (a))

The Total Allocated Amount Borne by Non-exempted Clearing Participant prorated in proportion to the Allocated Amount of the Third Tier Special Clearing Charge Limit of each Subject Clearing Participant (in the case where the Total Allocated Amount Borne by the Non-exempted Clearing Participant is not less than the total sum of the Allocated Amounts of the Third Tier Special Clearing Charge Limits of the Subject Clearing Participants, the Allocated Amount of the Third Tier Special Clearing Charge Limit of each Subject Clearing Participant)

(b) The allocated amount of the Third Tier Special Clearing Charge borne by a Participant Bearing Third Tier Special Clearing Charge who made bids at a price extremely deviated from the prevailing market in the Auction for Default Settlement in respect of such Defaulting Clearing Participant (hereinafter referred to as "Subject Clearing Participant" in this (b))

The residual amount of the Total Allocated Amount Borne by Non-exempted Clearing Participant deducted by the total sum of the amounts prescribed in (a) above and then prorated in proportion to the Allocated Amounts of the Third Tier Special Clearing Charge Limits of the Subject Clearing Participants (in the case where such residual amount is not less than the total sum of the Allocated Amounts of the Third Tier Special Clearing Charge Limits of the Subject Clearing Participants, the Allocated Amount of the Third Tier Special Clearing Charge Limit of each Subject Clearing Participant)

(c) The allocated amount of the Third Tier Special Clearing Charge borne by each Participant Bearing Third Tier Special Clearing Charge (excluding the Exempted Clearing Participant and the Participant Bearing Third Tier Special Clearing Charge set forth in (a) and (b) above) in respect of the Auction for Default Settlement

The amount calculated in accordance with the methods prescribed in (i) and (ii) below

(i) In respect of each bid placed by each Participant Bearing Third Tier Special Clearing Charge at the Primary Auction for Default Settlement related to the Auction for Default Settlement set forth in (c) above (limited to each bid placed by each Participant Bearing Third Tier Special Clearing Charge until when the sum of the Notional Amount corresponding thereto, which shall be calculated in the order of the lowest bid price, reaches the Notional Amount Requirement in respect of such Participant Bearing Third Tier Special Clearing Charge), the prorated amount of the Allocated Amount of the Third Tier Special Clearing Charge Limit (hereinafter referred to as "Prorated Amount for Allocation of Third Tier Special Clearing Charge Limit") in respect of such bid shall be calculated as the total sum of the Notional Amounts for such bids divided by the Notional Amount Requirement at the Primary Auction for Default Settlement related to the Auction for Default Settlement in respect of the Participant Bearing Third Tier Special Clearing Charge for such bids and then multiplied by the Allocated Amount of the Third Tier Special Clearing Charge Limit in respect of such Participant Bearing Third Tier Special Clearing Charge.

(ii) The total sum of the Prorated Amount for Allocation of Third Tier Special Clearing Charge Limit applied to each Participant Bearing Third Tier Special Clearing Charge in respect of each bid referred to in (i) above shall be calculated for each bid placed until when the aggregate amount of the Prorated Amount for Allocation of Third Tier Special Clearing Charge Limit corresponding thereto, which shall be calculated in the order of the highest bid price, reaches the Total Allocated Amount Borne by Non-exempted Clearing Participants deducted by the total sum set forth in (a) and (b) above.

- (2) In any case other than the case of Item (1): the Allocated Amount of the Third Tier Special Clearing Charge Limit in relation to each Participant Bearing Third Tier Special Clearing Charge as of the Default Determination Date.

2 The price prescribed in Item 1.d (b) of the preceding Paragraph as a "price extremely deviated from the prevailing market" shall be any price which is deemed to be extremely deviated from the prevailing market by the Default Management Committee in view of the composition and size of the Individual Subject Transactions for Auction, market condition of CDS Transactions and other circumstances, and which exceeds the successful bid price added by the amount equivalent to the degree of deviation determined by JSCC on a case-by-case basis based on the advice of the Default Management Committee.

- 3 JSCC shall, prior to the holding of each Individual Primary Auction for Default Settlement, notify the Default Settlement Bid Participants of the degree of deviation determined by JSCC pursuant to the preceding Paragraph.
- 4 Participants Bearing Third Tier Special Clearing Charge that are Specified Successor Financial Institutions shall pay the Allocated Amount of the Third Tier Special Clearing Charge contribution as the Participants Bearing Third Tier Special Clearing Charge that fall under Item (1), d., (c) of Paragraph 1 according to the order set forth in Item (1), d., (c) of Paragraph 1.

(Article 28 Amount of Fourth Tier Special Clearing Charge, etc.)

The amount of the Fourth Tier Special Clearing Charge to be prescribed by JSCC in its Rules as set forth in Paragraph 2 of Article 106 of the Business Rules shall be the amount set forth in each of the following Items according to the classification of the Participants Bearing Fourth Tier Special Clearing Charge (which means such term as defined in Paragraph 1 of Article 106 of the Business Rules; hereinafter the same).

- (1) In the case of each Participant Bearing Fourth Tier Special Clearing Charge (who has not been determined by JSCC to be in the Default, etc. after the Default Determination Date of the Defaulting Clearing Participant in respect of whom the Fourth Tier Special Clearing Charge is calculated): the amount obtained by prorating the amount of the Loss Resulting from Default Settlement after the recovery of loss pursuant to Articles 104 and 105 of the Business Rules (after the deduction of the amount of the Fourth Tier Special Clearing Charge Collateral deposited with JSCC by the Participant Bearing Fourth Tier Special Clearing Charge determined by JSCC to be in the Default, etc. after the Default Determination Date) in proportion to the amount of the profit in relation to such Participant Bearing Fourth Tier Special Clearing Charge; and
- (2) In the case of the Participant Bearing Fourth Tier Special Clearing Charge determined to be in the Default, etc. after the Default Determination Date of the Defaulting Clearing Participant in respect of whom the Fourth Tier Special Clearing Charge is calculated: the amount of the Fourth Tier Special Clearing Charge Collateral deposited with JSCC by such Participant Bearing Fourth Tier Special Clearing Charge.

Chapter 5 Special Clearing Charge Collateral

(Article 29 Obligation to Deposit Third Tier Special Clearing Charge Collateral)

In the case where any Clearing Participant is determined to be in the Default, etc., the other Clearing Participants are required to deposit with JSCC, respectively, the amount of money set forth in the following Items as the Third Tier Special Clearing Charge Collateral (provided, however, the accumulated amount to be deposited with JSCC by each Clearing Participant as the Third Tier Special Clearing Charge Collateral in respect of the same Default Settlement Period shall not exceed the amount equivalent to the Required CDS Clearing Fund Amount of such Clearing Participant on the JSCC Business Day immediately preceding the start date of

the Default Settlement Period) according to the cases set forth in the following Items by the date and time set forth in the relevant Items.

- (1) In the case where the amount equivalent to the loss from the Clearing Contracts of Defaulting Clearing Participant (which means the positive (and shall only be a positive and not negative) value of the sum total of the balance of the total amount of the Variation Margin, etc. receivable by JSCC from the Defaulting Clearing Participant, net of the total amount of the Variation Margin, etc. payable by JSCC to the Defaulting Clearing Participant on each JSCC Business Day after the Default Determination Date (or the next JSCC Business Day of the Default Determination Date in the case where the Defaulting Clearing Participant has completed the performance of its obligations under the relevant Clearing Contract(s) of Defaulting Clearing Participant that are due on the Default Determination Date; the same applies in this Item) and the balance of the total amount of the Variation Margin, etc. payable by JSCC to the Clearing Participants, net of the total amount of the Variation Margin, etc. receivable by JSCC from the Clearing Participants in respect of the Hedge Transactions deemed as the Clearing Contracts in accordance with the Paragraph 2 of Article 94 of the Business Rules on each JSCC Business Day after the Default Determination Date) comes to exceed the total amount of the Fixed Resources for Loss Recovery and the amount to be borne by each such Clearing Participant as Third Tier Special Clearing Charge out of the amount of such excess comes to exceed the total sum of the Initial Margin in respect of the Clearing Contracts (Own Account) and Default Contingent Margin actually deposited with JSCC by each such Clearing Participant:
 - a. Date and time: 11:00 a.m. on the JSCC Business Day immediately following the day on which such excess occurs
 - b. Amount: Amount by which the Third Tier Special Clearing Charge Collateral actually deposited with JSCC by each such Clearing Participant becomes equivalent to such amount of excess on the day on which such excess occurs
- (2) In the case where the amount notified by JSCC to each Clearing Participant pursuant to Item 2 of Paragraph 4 of Article 15 and Item 2 of Paragraph 4 of Article 17 as the Third Tier Special Clearing Charge to be borne by each such Clearing Participant in the case of Paragraph 4 of Article 15 and Paragraph 4 of Article 17 (only if Paragraph 2 of Article 16 is applied) comes to exceed the total sum of the Initial Margin in respect of the Clearing Contracts (Own Account), Default Contingent Margin and the Third Tier Special Clearing Charge Collateral actually deposited with JSCC by each such Clearing Participant:
 - a. Date and time: 0:30 p.m. on the date on which such notification was made
 - b. Amount: Amount of such excess
- (3) In the case where the amount notified by JSCC to each Clearing Participant pursuant to Item 2 of Paragraph 4 of Article 15 and Item 2 of Paragraph 5 of Article 17-2 as the Third Tier Special Clearing Charge to be borne by each such Clearing Participant in the case of Paragraph 4 of Article 17 (excluding where Paragraph 2 of Article 16 is applied) and Paragraph 5 of Article 17-2 comes to exceed the total sum of the Initial

Margin in respect of the Clearing Contracts (Own Account), Default Contingent Margin and the Third Tier Special Clearing Charge Collateral actually deposited with JSCC by each such Clearing Participant:

- a. Date and time: 2:00 p.m. on the date on which such notification was made
- b. Amount: Amount of such excess

- (4) In the case where the amount notified by JSCC to each Clearing Participant pursuant to Item 2 of Paragraph 4 of Article 15, Item 2 of Paragraph 4 of Article 17 and Item 2 of Paragraph 5 of Article 17-2 as the Third Tier Special Clearing Charge to be borne by each such Clearing Participant in the case of Paragraph 4 of Article 15, Paragraph 4 of Article 17 and Paragraph 5 of Article 17-2 comes to exceed the total sum of the Third Tier Special Clearing Charge Collateral actually deposited with JSCC by each such Clearing Participant:

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

(Article 30 Obligation to Deposit Fourth Tier Special Clearing Charge Collateral)

In the case where any Clearing Participant is determined to be in the Default, etc., the other Clearing Participants are required to deposit with JSCC, respectively, the amount of money set forth in the following Items as the Fourth Tier Special Clearing Charge Collateral according to the cases set forth in the following Items by the date and time set forth in the relevant Items.

- (1) In the case where the amount equivalent to the loss from the Clearing Contracts of Defaulting Clearing Participant comes to exceed the total amount of the Fixed Resources for Loss Recovery and the total sum of the amounts to be borne by each such Clearing Participant as Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge (which means the total sum of the amounts to be borne by each such Clearing Participant as Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge pursuant to the provisions of Articles 27 and 28 if such amount equivalent to the loss is deemed as Loss Resulting from Default Settlement which may be incurred by JSCC in the case of implementation of Auction for Default Settlement at such time) out of the amount of such excess comes to exceed the total sum of the Initial Margin in respect of the Clearing Contracts (Own Account), Default Contingent Margin, Third Tier Special Clearing Charge Collateral and Fourth Tier Special Clearing Charge Collateral actually deposited with JSCC by each such Clearing Participant:
 - a. Date and time: 11:00 a.m. on the JSCC Business Day immediately following the day on which such excess occurs
 - b. Amount: Amount by which the Fourth Tier Special Clearing Charge Collateral actually deposited with JSCC by each such Clearing Participant becomes equivalent to such amount of excess on the day on which such excess occurs
- (2) In the case where the total amount notified by JSCC to each Clearing Participant pursuant to Item 2 of Paragraph 4 of Article 15 and Item 2 of Paragraph 4 of Article

17 as the Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge to be borne by each such Clearing Participant in the case of Paragraph 4 of Article 15 and Paragraph 4 of Article 17 (only if Paragraph 2 of Article 16 is applied) comes to exceed the total sum of the Initial Margin in respect of the Clearing Contracts (Own Account), Default Contingent Margin, the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral actually deposited with JSCC by each such Clearing Participant:

- a. Date and time: 0:30 p.m. on the date on which such notification was made
- b. Amount: Amount of such excess

- (3) In the case where the total amount notified by JSCC to each Clearing Participant pursuant to Item 2 of Paragraph 4 of Article 15 and Item 2 of Paragraph 5 of Article 17-2 as the Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge to be borne by each such Clearing Participant in the case of Paragraph 4 of Article 17 (excluding where Paragraph 2 of Article 16 is applied) and Paragraph 5 of Article 17-2 comes to exceed the total sum of the Initial Margin in respect of the Clearing Contracts (Own Account), Default Contingent Margin, the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral actually deposited with JSCC by each such Clearing Participant:

- a. Date and time: 2:00 p.m. on the date on which such notification was made
- b. Amount: Amount of such excess

- (4) In the case where the total amount notified by JSCC to each Clearing Participant pursuant to Item 2 of Paragraph 4 of Article 15, Item 2 of Paragraph 4 of Article 17 and Item 2 of Paragraph 5 of Article 17-2 as the Third Tier Special Clearing Charge and Fourth Tier Special Clearing Charge to be borne by each such Clearing Participant in the case of Paragraph 4 of Article 15, Paragraph 4 of Article 17 and Paragraph 5 of Article 17-2 comes to exceed the total sum of the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral actually deposited with JSCC by each such Clearing Participant:

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

(Article 31 Appropriation and Return of Special Clearing Charge Collateral)

On the JSCC Business Day immediately following the Initial Loss-Determination Date for the Defaulting Clearing Participant, JSCC will appropriate the Third Tier Special Clearing Charge Collateral deposited with JSCC by each the Clearing Participant in accordance with Article 29 to pay the obligations related to the Third Tier Special Clearing Charge payable by the Clearing Participant to JSCC and also appropriate the Fourth Tier Special Clearing Charge Collateral deposited with JSCC by the Clearing Participant in accordance with the preceding Article to pay the obligations related to the Fourth Tier Special Clearing Charge payable by the Clearing Participant to JSCC, respectively. The amount remaining, if any, after the appropriation shall be returned to the Clearing Participant promptly after the appropriation.

(Article 31-2 Required Amount of Default Contingent Margin)

1 The Required Amount of Default Contingent Margin of each Clearing Participant set forth in Article 107-2 of the Business Rules shall be an amount calculated pursuant to each Item below on each JSCC Business Day during a Default Settlement Period. Provided, however, the Required Amount of Default Contingent Margin on the last day of the Default Settlement Period shall be zero.

- (1) On each JSCC Business Day during a Default Settlement Period, an amount equivalent to the Required CDS Clearing Fund Amount (hereinafter referred to as “Amount Equivalent to Required CDS Clearing Fund Amount”) shall be calculated in accordance with the Appendix “Calculation of Required CDS Clearing Fund Amount” to the Rules on Required CDS Clearing Fund Amount.
- (2) An amount to serve as a basis for calculation of Required Amount of Default Contingent Margin (hereinafter referred to as “Calculation Base for Required Amount of Default Contingent Margin”) shall be calculated pursuant to a. and b. below in accordance with the classifications set forth in a. and b. below:
 - a. On the day on which the Default Settlement Period commences: if the Amount Equivalent to Required CDS Clearing Fund Amount calculated on such day is less than the Required CDS Clearing Fund Amount on the immediately preceding JSCC Business Day, the Required CDS Clearing Fund Amount on the immediately preceding JSCC Business Day shall be the Calculation Base for Required Amount of Default Contingent Margin on such day, and if the Amount Equivalent to Required CDS Clearing Fund Amount calculated on such day is not less than the Required CDS Clearing Fund Amount on the immediately preceding JSCC Business Day, the Amount Equivalent to Required CDS Clearing Fund Amount calculated on such day shall be the Calculation Base for Required Amount of Default Contingent Margin on such day.
 - b. On the day other than the day on which the Default Settlement Period commences: if the Amount Equivalent to Required CDS Clearing Fund Amount calculated on such day is less than the Calculation Base for Required Amount of Default Contingent Margin on the immediately preceding JSCC Business Day, the Calculation Base for Required Amount of Default Contingent Margin on the immediately preceding JSCC Business Day shall be the Calculation Base for Required Amount of Default Contingent Margin on such day, and if the Amount Equivalent to Required CDS Clearing Fund Amount calculated on such day is not less than the Calculation Base for Required Amount of Default Contingent Margin on the immediately preceding JSCC Business Day, the Amount Equivalent to Required CDS Clearing Fund Amount calculated on such day shall be the Calculation Base for Required Amount of Default Contingent Margin on such day. In this case, the calculation of the Calculation Base for Required Amount of Default Contingent Margin shall be made successively from the JSCC Business Day immediately following the day on which the Default Settlement Period commences.
- (3) The Required Amount of Default Contingent Margin shall be the Calculation Base for Required Amount of Default Contingent Margin on such day less the Required CDS Clearing Fund Amount on the JSCC Business Day immediately preceding the day on which the Default Settlement Period commences.

- 2 The manner of notification to a Clearing Participant of its Required Amount of Default Contingent Margin prescribed by JSCC as set forth in Paragraph 4 of Article 107-2 of the Business Rules shall be the method using the CDS Clearing System (which means the CDS Clearing System prescribed in Item 9 of Article 2 of the Handling Procedures of CDS Business Rules).

(Article 32 Payment of Special Clearing Charge upon Final Determination of Loss)

- 1 In accordance with Paragraph 1 of Article 110 of the Business Rules, JSCC may draw certain amount out of the CDS Clearing Fund deposited with JSCC by each Clearing Participant or, instead, request payment of such amount from the Clearing Participant.
- 2 Notwithstanding Article 26, each Clearing Participant shall, in the case where it is supposed to pay the Special Clearing Charge to JSCC pursuant to Paragraph 1 of Article 110 of the Business Rules, pay the Special Clearing Charge to JSCC by such method as prescribed by JSCC on a case-by-case basis.

Chapter 6 Distribution of Collected Amount

(Article 33 Clearing Participants Eligible to Receive Distribution of Collected Amount)

The eligible persons to be prescribed by JSCC in its Rules as set forth in Paragraph 1 of Article 111 of the Business Rules shall be the Clearing Participants listed below.

- (1) The Clearing Participants who have paid their respective Fourth Tier Special Clearing Charges to JSCC;
- (2) The Clearing Participants who have paid their respective Third Tier Special Clearing Charges to JSCC;
- (3) The Clearing Participants who have had their respective Required CDS Clearing Fund Amounts drawn down pursuant to Paragraph 1 of Article 104 or Paragraph 1 of Article 110 of the Business Rules (or paid to JSCC the amount otherwise to have been drawn down pursuant to Paragraph 1 of the preceding Article) with the amount thus drawn down or paid, as the case may be, appropriated to recover the losses incurred by JSCC due to the Loss Resulting from Default Settlement, the Default, etc. of one or more Clearing Participants or for any other reason; and
- (4) The Clearing Participants who have incurred loss from reconstruction of the Clearing Contracts terminated pursuant to Paragraph 1 of Article 98 of the Business Rules.

(Article 34 Distribution Procedure)

- 1 In each case set forth in each Item in Paragraph 1 of Article 111 of the Business Rules, JSCC will distribute the amount set forth in each such Item, net of the expenses incurred for collection, etc. thereof, to the relevant Clearing Participant in the order of the following Items up to the amount prorated in proportion to the amount set forth in each of the following Items.

- (1) To the Clearing Participants set forth in Item (1) of the preceding Article in proportion to the amount of the Fourth Tier Special Clearing Charge paid by them, respectively, to JSCC;
 - (2) To the Clearing Participants set forth in Item (2) of the preceding Article in proportion to the amount of the Third Tier Special Clearing Charge paid by them, respectively, to JSCC;
 - (3) To the Clearing Participants set forth in Item (3) of the preceding Article in proportion to the amount of the CDS Clearing Fund appropriated to recover the loss incurred by JSCC due to the Loss Resulting from Default Settlement or the Default, etc. of any Clearing Participant or for an other reason; and
 - (4) To the Clearing Participant set forth in Item (4) of the preceding Article in proportion to the amount of the loss set forth therein.
- 2 In the case where JSCC deems it necessary for ensuring appropriate implementation of the distribution to be made by JSCC pursuant to the preceding Paragraph to the Clearing Participants set forth in Item (4) of the preceding Paragraph, JSCC may request the relevant Clearing Participants to submit the evidence of their respective losses falling under Item (4) of the preceding Paragraph and other necessary information.
- 3 The amount of the loss set forth in Item (4) of Paragraph 1 will be determined by JSCC based on the advice of the Default Management Committee and with reference to the evidence and information submitted by the Clearing Participants pursuant to the preceding Paragraph.
- 4 JSCC will pay the distribution amount to each Clearing Participant promptly after the determination of such amount pursuant to Paragraph 1.

(Article 35 Procedure in Absence of Participant Eligible to Receive Collected Amount)

In the case where there is no Clearing Participant eligible to receive the amount to be distributed pursuant to each Item in Paragraph 1 of Article 111 of the Business Rules, JSCC will dispose of the remaining amount, net of the expenses incurred by JSCC for the collection, etc., in the order of, and in such manner as set forth in, the following Items.

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

Guarantee Reserve until the balance of the Second Tier Settlement Guarantee Reserve reaches 1.5 billion Japanese Yen;

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

Supplementary Provision

These Rules shall come into force as of 19 July 2011.

Supplementary Provision

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

Supplementary Provision

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

Supplementary Provisions

These revised Rules shall come into force on the date designated by JSCC.

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

Supplementary Provision

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

Supplementary Provision

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

Supplementary Provision

These amended Rules shall come into force as of 9 March 2016.

Supplementary Provision

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

Supplementary Provision

These amended Rules shall come into force as of 18 June 2018.

Supplementary Provision

These amended Rules shall come into force as of 27 May 2019.