

**Partial Amendment to Interest Rate Swap Clearing Business Rules and Other Rules in association with
Addition of Eligible Collaterals in IRS Clearing Service**

I. Purpose of Amendment

JSCC will make necessary amendments to the Interest Rate Swap Clearing Business Rules and Subordinate Rules as per Annex attached hereto to add USD cash to eligible collaterals having in mind an enhancement of convenience of existing stakeholders and on-boarding of diverse layers of Customers in its IRS Clearing Service.

II. Outline of Amendment

1. Add USD Cash to Eligible Collaterals

- USD cash is added to the eligible collaterals in IRS Clearing Service.

(Remarks)

- Interest Rate Swap Clearing Business Rules, Article 2.1.(1)-2, (11), (50) and (55), and Handling Procedures of Interest Rate Swap Business Rules, Article 2-2

2. Transfer and Management of USD Cash Collateral

- A trust will be established periodically for the USD cash collateral posted by Clearing Participants and Customers.

- USD cash collateral may be managed in a manner prescribed by JSCC.

- Handling Procedures of Interest Rate Swap Business Rules, Article 44.1.(1)-2 and Article 44.2.(1)-2

- Handling Procedures of Interest Rate Swap Business Rules, Article 44-2.3

3. Other

- Other necessary amendments are made.

III. Effective Date

These amendments shall come into force on April 1, 2024.

- However, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after April 1, 2024.

(Follow-on Announcement as of March 22, 2024)

JSCC decided to postpone the effective date of these amendments because the contract negotiations with the trust bank and the works for making clear the tax withholding issues related to the investment revenue are taking time. New effective date will be notified separately as soon as it is decided.

Business Rules and other Rules Partial Amendment
concerning Interest Rate Swap Clearing Business

Table of Contents

	Page
1. Interest Rate Swap Clearing Business Rules Partial Amendment	1
2. Handling Procedures of Interest Rate Swap Business Rules Partial Amendment	27

Interest Rate Swap Clearing Business Rules

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

Note

1. JSCC hereby certifies that to the best of its knowledge, the foregoing is a fair and accurate English translation of a document originally written in Japanese. In the event of any inconsistency between the original Japanese document and this reference English translation, the original Japanese document will prevail.
2. For convenience purposes, we have added certain explanatory footnotes that do not appear in the Japanese original.

Article 2. Definitions

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

- (1) “Transfer” means any of the following:
- a. a process to have a Clearing Brokerage Contract between a Transferring Customer (as such term defined in Article 58-4.1; the same applies in this item) and the Clearing Broker for the Transferring Customer terminate and to have the claims and obligations thereunder cease to have future effect pursuant to the provisions of Article 58-5.4;
 - b. a process to have a Clearing Brokerage Contract between a Transferring Customer and the Clearing Broker for the Transferring Customer terminate and to have the claims and obligations thereunder cease to have future effect pursuant to the provisions of Article 58-5.4, and simultaneously to have a legal relationship with the same terms and conditions as the said Clearing Brokerage Contract come into effect between the Receiving Customer (as such term defined in Article 58-4.1) and the Clearing Broker for the Receiving Customer; and
 - c. a process to have a legal relationship with the same economic effect as the Proprietary Cleared Contract between JSCC and the Transferring Clearing Participant (as such term defined in Article 58-6.1) come into effect between a Receiving Customer (as such term defined in Article 58-6.1) and the Clearing Broker for the Receiving Customer;
- (1)-2 “Customer Initial Margin” means any Japanese yen Cash, Cash in a currency other than Japanese yen designated by JSCC² or Eligible Securities Collateral deposited with a Clearing Broker by a Customer and kept by the Clearing Broker with the consent of the Customer for the purpose of securing the obligations of such Customer set forth in Article 61.1.(2);
- (2) “Customer Account” means a customer account set forth in Article 59.2;
- (2)-2 “Vendor-Initiated Compression” means a process to conduct Compression of a package of Cleared Contracts of multiple Clearing Participants as prescribed by JSCC in accordance with the provisions of Article 53-2-2.
- (2)-3 “JPY Cleared Contract” means a Cleared Contract whose Notional Amount and settlement currency are denominated in Japanese yen.
- (3) “Parent Company” means, with respect to a Legal Entity,

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

- a. a parent company of such Legal Entity (meaning any other Legal Entity controlling the financial and business policy of such Legal Entity)
 - b. a Legal Entity controlling the financial and business policy of a parent company of such Legal Entity, if any;
 - c. a subsidiary of a parent company of a Legal Entity (meaning any other Legal Entity whose financial and business policy is controlled by a parent company of such Legal Entity);
 - d. a subsidiary of a Legal Entity described in c. above; and
 - e. other persons deemed by JSCC as those equivalent to the foregoing;
- (4) “Parental Guarantee” means a guarantee extended by the Parent Company of a Clearing Participant to secure the obligation of such Clearing Participant owing to JSCC by submitting a letter of guarantee in the form prescribed by JSCC³, including other documents deemed by JSCC to be equivalent to such letter of guarantee, to JSCC;
- (4)-2 “Unwind Fee” means, when Cleared Contracts terminate before its scheduled Termination Date as a result of Vendor-Initiated Compression, Member-Initiated Compression or JSCC-Initiated Compression, Cash to be paid or received between JSCC and Clearing Participants which are parties to the relevant Cleared Contracts;
- (4)-3 “Foreign Currency Cleared Contract” means Cleared Contract whose Notional Amount and settlement currency are denominated in any currency other than Japanese yen;
- (4)-4 “Foreign Currency Home Business Day” means Sydney Business Day for AUD Cleared Contracts, New York Business Day for USD Cleared Contracts and TARGET Settlement Day for EUR Cleared Contracts;
- (4)-5 “Foreign Currency Home Holiday” means any day other than Foreign Currency Home Business Day;
- (4)-6 “Customer Buffer” means Initial Margin a Clearing Broker deposits with or delivers to JSCC for the purpose of allocation to a deficit pursuant to the provisions of Article 84-7 when a Customer has not

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

deposited with JSCC an amount sufficient to cover the Margin Required to Clear set forth in Article 49.1;

- (4)-7 “Available Customer Buffer Amount” means an amount of the Customer Buffer made available to a Customer intending to request a Clearing Broker to act on its behalf, which is equal to the amount obtained by subtracting the amount of the Customer Buffer already allocated to the relevant Customer Account as of the time at which the notification set forth in Article 54.1 related to the relevant request (including the case where such provisions apply *mutatis mutandis* under Article 54-2.1) is given from the Customer Buffer Cap, or, if such amount is more than the Customer Buffer Unallocated Balance, the amount of such Customer Buffer Unallocated Balance;
- (4)-8 “Customer Buffer Cap” means an upper allocation limit of the Customer Buffer for each Customer Account, which a Clearing Broker sets as a cap on the accumulated amount for one JSCC Business Day allowed to be allocated, and notifies to JSCC pursuant to the provisions of Article 84-6;
- (4)-9 “Customer Buffer Unallocated Balance” means the amount obtained by subtracting the amount of Customer Buffer already allocated pursuant to the provisions of Article 84-7.1 to Customer Accounts of Customers who have concluded the Clearing Brokerage Agreement with the relevant Clearing Broker from the amount of the Customer Buffer deposited with JSCC by the Clearing Broker.
- (5) “Corporate Group” means a corporate group set forth in Article 5.1.(2) of the Financial Instruments and Exchange Act;
- (6) “Early Termination” means a termination of a Cleared Contract before the Termination Date for any reason other than Compression;
- (7) “Early Termination Charge” means Cash received and paid between the parties to a Cleared Contract in the case of its Early Termination;
- (8) “Subordinate Rules” means the rules set by JSCC that are subordinate to these Business Rules, in whatever name and including the amendments thereto, if any;
- (9) “Business Holiday” means a holiday set forth in Article 5.1 or an extraordinary holiday set forth in Article 5.2;
- (9)-2 “Cash” means Japanese yen, Australian dollars, United States dollars and Euro;
- (10) “Funds” means Cash, securities, claims and any other property;

- (11) “IRS Clearing Fund” means Japanese yen Cash, Cash in a currency other than Japanese yen designated by JSCC⁴ or Eligible Securities Collateral deposited with JSCC by each Clearing Participant for the purpose set forth in Article 17.1;
- (12) “IRS Clearing Qualification” means a permission to become a JSCC’s counterparty in a Cleared Contract in accordance with the Rules which may be granted or cancelled by JSCC;
- (13) “IRS Transaction” means an interest rate swap transaction which is an OTC derivatives transaction prescribed in Article 2.22.(5) of the Financial Instruments and Exchange Act;
- (13)-2 “Blended Rates Compression” means a process to conduct Compression in the manner prescribed by JSCC in accordance with the provisions of Article 53-2.
- (13)-2-2 “Client Clearing” means a Clearing for a Customer which does not belong to the same Corporate Group as its Clearing Broker;
- (13)-3 “Cross Margining Accepting Party” means a Clearing Participant which gives, pursuant to the provisions of Article 84-2.2, to JSCC a notice of acceptance or rejection of an application for having Positions in JGB Futures Contracts covered under Cross Margining submitted to JSCC pursuant to the provisions of the Securities and Similar Contracts Business Rules (“Cross Margining Request”);
- (13)-4 “Cross Margining Requestor” means a JGB Futures Clearing Participant which makes a Cross Margining Request to JSCC;
- (13)-5 “Cross Margining” means a scheme of calculating Required Initial Margin for Positions in JGB Futures Contracts designated by JSCC under the Rules⁵;
- (13)-6 “Cross Margined JGB Futures Cleared Contract” means a JGB Futures Cleared Contract Positions in which are recorded on a Proprietary Account or a Customer Account pursuant to the provisions of Article 84-4.3;
- (13)-7 “Cross Margining Acceptance” means giving a notice of acceptance of Cross Margining Request pursuant to the provisions of Article 84-4.2:

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

⁵ cf. Handling Procedures of IRS Clearing Business, Article 3-2.

- (13)-8 “Cross Margining User” means a Clearing Participant or a Customer falling under any of the items a through d below, and utilizing Cross Margining for its Positions in JGB Futures Contracts on its book with respect to whom the notification prescribed in Article 84-2 has been submitted to JSCC:
- a. A JGB Futures Clearing Participant;
 - b. A Customer who requested brokerage of its JGB Futures Contracts to a JGB Futures Clearing Participant;
 - c. A JGB Futures Non-Clearing Participant; or
 - d. A Customer who requested brokerage of its JGB Futures Contracts to a JGB Futures Non-Clearing Participant.
- (14) “Settlement Amount” means, in respect of a Cleared Contract, the amount of Cash to be paid or received between JSCC and a Clearing Participant (excluding those to be paid or received as IRS Clearing Fund, Initial Margin, Variation Margin and interests on Variation Margin) or, if such Cash are paid or received on a net basis pursuant to the provisions of Article 85.2 or Article 85-4.2 hereof among such monies, the amount so netted ;
- (15) “Failure of Settlement” means a default or anticipated default in the performance of obligations arising as a result of a Cleared Contract or any other obligations under the Rules in whole or in part by the due date thereof;
- (15)-2 “AUD Cleared Contract” means a Cleared Contract whose Notional Amount and settlement currency are denominated in Australian dollars;
- (15)-3 “JGB Futures Position Transfer” means a process to have new claims and obligations related to JGB Futures Cleared Contracts and the like accrue among JSCC, the JGB Futures Clearing Participant and the Cross Margining User falling under the provisions of Article 2.1.(13)-8.b. to d. (and a JGB Non-Clearing Participant which accepted a brokerage of JGB Ftutures Contracts for a person falling under Article 2.1.(13)-8.d.) and to pay or receive Cash and settle claims and obligations in association therewith, in accordance with the provisions of Article 94-3. The claims and obligations related to JGB Futures Cleared Contracts and the like means the claims and obligations related to JGB Futures Cleared Contracts, a Clearing brokerage for JGB Futures Contracts and a brokerage for JGB Futures Contracts; and the same shall apply hereinafter;
- (15)-4 “JGB Futures Successor Clearing Broker” means a JGB Futures Clearing Participant that has assumed the claims and obligations arising as a result of the JGB Futures Position Transfer.
- (15)-5 “JGB Futures Cleared Contract” means a Cleared Contract (referring to “Contract subject to Clearing under Article 7.1.(3) of the Securities and Similar Contracts Business Rules) related to JGB Futures

Contract;

- (15)-6 “JGB Futures Clearing Participant” means a JGB Futures Clearing Participant set forth in Article 5.3 of the Securities and Similar Contracts Business Rules;
- (15)-7 “JGB Futures Non-Clearing Participant” means a JGB Futures Non-Clearing Participant set forth in Article 73-6.2 of the Securities and Similar Contracts Business Rules;
- (15)-8 “JGB Futures Backup Clearing Broker” means a JGB Futures Clearing Participant who has been designated by a Cross Margining User in advance in accordance with the provisions of Article 45-3 as a JGB Futures Clearing Participant to accept JGB Futures Position Transfer in respect of the claims and obligations related to the JGB Futures Cleared Contracts and the like when the claims and obligations come into existence in accordance with the provisions of Article 84-5.1.
- (15)-9 “JGB Futures Contract” means a JGB Futures Contract set forth in Article 3.2.(3) of the Securities and Similar Contracts Business Rules;
- (16) “Uniform International Standard” means the uniform international standard set forth in Article 1.4 of “Order Providing for the Categories, etc. Prescribed in Article 26, Paragraph 2 of the Banking Act” (Ordinance of the General Administrative Agency of the Cabinet and the Ministry of Finance No. 39, 2000), Article 1.4 of “Order Providing for the Categories, etc. Prescribed in Article 26, Paragraph 2 of the Banking Act Applied *mutatis mutandis* pursuant to Article 17 of the Long Term Credit Bank Act” (Ordinance of the General Administrative Agency of the Cabinet and the Ministry of Finance No. 40, 2000), or Article 3.5 of “Order Providing for the Categories, etc. Prescribed in Article 26, Paragraph 2 of the Banking Act Applied *mutatis mutandis* pursuant to Article 89, Paragraph 1 of Shinkin Bank Act” (Ordinance of the General Administrative Agency of the Cabinet and the Ministry of Finance No. 41, 2000);⁶
- (17) “Japanese Standard” means the standard in Japan set forth in Article 1.5 of “Order Providing for the Categories, etc. Prescribed in Article 26, Paragraph 2 of the Banking Act”, Article 1.5 of “Order Providing for the Categories, etc. Prescribed in Article 26, Paragraph 2 of the Banking Act Applied *mutatis mutandis* pursuant to Article 17 of the Long Term Credit Bank Act”, or Article 3.4 of “Order Providing for the Categories, etc. Prescribed in Article 26, Paragraph 2 of the Banking Act Applied *mutatis mutandis* pursuant to Article 89, Paragraph 1 of the Shinkin Bank Act”;
- (18) “Fixed Resources for Loss Recovery” means the First Tier IRS Settlement Guarantee Reserve, the

⁶ Uniform International Standard is a standard prescribed in Japan under Basel III.

Second Tier IRS Settlement Guarantee Reserve and the IRS Clearing Fund deposited with JSCC by each Clearing Participant, up to the Second Tier Clearing Participant Cap, other than the Defaulting Clearing Participant;

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

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

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

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

(21) “Net Capital” means,

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

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

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

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

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

- (23) “Proprietary Account” means a proprietary transaction account set forth in Article 59.2;
- (23)-2 “Designated Market Operator” means a designated market operator set forth in Article 3.2.(1) of the Securities and Similar Contracts Business Rules designated by JSCC⁷;
- (23)-3 “Sydney Business Day” means a day on which banks are open for business in Sydney, Australia and fund settlement in Australian dollars is performed;
- (24) “Clearing Broker” means a Clearing Participant who has entered into a Clearing Brokerage Agreement with a Customer;
- (24)-2 “Position Transfer” means a process to have new claims and obligations related to a Proprietary Cleared Contract accrue between JSCC and the Clearing Participant and to pay or receive Cash and settle claims and obligations in association therewith, in accordance with the provisions of Article 53-4.4 or a process to have new claims and obligations related to Customer’s Cleared Contracts and Clearing Brokerage Contracts accrue among JSCC, a Clearing Participant and a Customer, and to pay or receive Cash and settle claims and obligations in association therewith, in accordance with the provisions of Article 58-3.4, Article 94.6 or Article 94-2.2;
- (24)-3 “Successor Clearing Broker” means a Clearing Broker that has assumed the claims and obligations arising as a result of the Position Transfer.
- (24)-4 “Securities and Similar Contracts Business Rules” means the business rules prescribed by JSCC for its securities and similar contracts clearing business;
- (25) “Margin” collectively means Initial Margin, Customer Initial Margin and Variation Margin;
- (26) “Net Present Value” means the value calculated by discounting the future cash-flows arising from an IRS Transaction to the present value according to the method prescribed by JSCC⁸;
- (27) “Customer” means a person who has entered into a Clearing Brokerage Agreement with a Clearing Participant and submitted a letter of undertaking as prescribed in Article 43.2 to JSCC, and who satisfies the requirements prescribed by JSCC⁹;

⁷ *cf.* Handling Procedures of IRS Clearing Business, Article 3-3.

⁸ *cf.* Handling Procedures of IRS Clearing Business, Article 4.

⁹ *cf.* Handling Procedures of IRS Clearing Business, Article 5.

- (28) “Clearing Brokerage Contract” means a legal relationship between a Clearing Broker and a Customer coming into effect as a result of each Clearing Brokerage in accordance with the Clearing Brokerage Agreement, which has the same economic effect as the Customer’s Cleared Contract coming into effect as a result of the said brokerage;
- (28)-2 “Clearing Brokerage Contract (Settlement Type)” means a contract for which Variation Margin shall not be paid or received, but Mark-to-Market Difference shall be paid or received pursuant to these Business Rules;
- (28)-3 “Clearing Brokerage Contract (Collateral Type)” means a contract for which Variation Margin shall be paid or received pursuant to these Business Rules;
- (29) “Clearing Participant” means a person who holds an IRS Clearing Qualification;
- (30) “Clearing Participant Agreement” means an agreement between JSCC and a Clearing Participant in the form prescribed by JSCC¹⁰, which incorporates the terms of the Rules;
- (31) “Clearing Brokerage Agreement” means an agreement entered into between a Customer and a Clearing Broker in the form prescribed by JSCC¹¹, including any agreements entered into between the Clearing Broker and a Customer in accordance with such agreement, under which the Clearing Broker may accept the Customer’s IRS Transactions for Clearing;
- (32) “Clearing Brokerage Original Transaction” means the original IRS Transaction that existed between a Customer and a Clearing Participant or another Customer for which the Customer requested Clearing via their Clearing Broker;
- (33) “Clearing Brokerage Account” means a clearing brokerage account as set forth in Article 60.1;
- (34) “Cleared Contract” means an IRS Transaction between JSCC and a Clearing Participant that comes into effect as a result of Clearing;
- (35) “Customer’s Cleared Contract” means a Cleared Contract on the Customer’s book executed by a Clearing Broker according to a request of a Customer for Clearing Brokerage;
- (35)-2 “Cleared Contract (Settlement Type)” means a Cleared Contract for which Variation Margin shall not

¹⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 6, as well as Exhibit Form 2.

¹¹ *cf.* Handling Procedures of IRS Clearing Business, Article 7, as well as Exhibit Form 3.

be paid or received, but Mark-to-Market Difference shall be paid or received pursuant to these Business Rules;

- (36) “Proprietary Cleared Contract” means a Cleared Contract executed by a Clearing Participant on its proprietary book;
- (36)-2 “Cleared Contract (Collateral Type)” means a Cleared Contract for which Variation Margin shall be paid or received pursuant to these Business Rules;
- (36)-3 “Mark-to-Market Difference” shall collectively refer to the Cash listed in the following items:
- a. Cash paid or received between JSCC and a Clearing Participant on each JSCC Business Day to settle exposure related to the change in present value prescribed in Article 61-2.1. (1);
 - b. Cash paid or received between JSCC and a Clearing Broker on each JSCC Business Day to settle exposure related to the change in present value prescribed in Article 61-2.1. (2); and
 - c. Cash paid or received between a Clearing Broker and its Customer on each JSCC Business Day to settle exposure related to the change in present value prescribed in Article 61-2.1. (3);
- (36)-4 “Mark-to-Market Difference And Adjustment Amount” collectively means the Mark-to-Market Difference and Adjustment Amount related to Mark-to-Market Difference;
- (36)-5 “Adjustment Amount related to Mark-to-Market Difference” means Cash as set forth in Article 83.2.1;
- (37) “Resources for Loss Recovery” means the Fixed Resources for Loss Recovery and the Liquid Resources for Loss Recovery to be used in accordance with the Rules to recover the losses which JSCC may incur upon the Default of any Clearing Participant.
- (38) “First Tier IRS Settlement Guarantee Reserve” means an amount set aside by JSCC in accordance with the Subordinate Rules¹² for the purpose of covering losses arising from the Default of a Clearing Participant;
- (39) “Second Tier IRS Settlement Guarantee Reserve” means an amount set aside by JSCC in accordance with the Subordinate Rules¹³ for the purpose of covering losses arising from the Default of a Clearing

¹² *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 3.

¹³ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 4.

Participant;

- (40) “Second Tier Clearing Participant Cap” means the Required IRS Clearing Fund contribution of each Clearing Participant as of the JSCC Business Day immediately preceding the start date of the Default Settlement Period in which the Default Determination Date in respect of the Defaulting Clearing Participant set forth in Article 103.1 falls.
- (41) “Third Tier Special Clearing Charge” means Japanese yen Cash paid by a Clearing Participant to JSCC in accordance with the provisions of Article 105;
- (42) “Third Tier Special Clearing Charge Collateral” means Japanese yen Cash deposited by a Clearing Participant with JSCC for the purpose described in Article 107.1.(1);
- (43) “Fourth Tier Special Clearing Charge” means Cash paid by a Clearing Participant to JSCC in accordance with the provisions of Article 106;
- (44) “Fourth Tier Special Clearing Charge Collateral” means Cash deposited by a Clearing Participant with JSCC for the purpose described in Article 107.1.(2);
- (45) “Eligible Securities Collateral” mean the securities specified by JSCC¹⁴ that may be deposited as the IRS Clearing Fund, Initial Margin, Customer Initial Margin or Default Contingent Margin;
- (45)-2 “Position” means “Position” as defined in Article 45-2.2 of the Securities and Similar Contracts Business Rules;
- (46) “Other Clearing Business” means the Clearing Service and businesses incidental thereto carried out by JSCC excluding the IRS Clearing Businesses;
- (47) “Eligible IRS Transaction” means an IRS Transaction between Clearing Participants which satisfies the requirements prescribed by JSCC¹⁵;
- (48) Deleted;
- (49) “JSCC Business Day” means any day other than a Business Holiday¹⁶;

¹⁴ *cf.* Handling Procedures of IRS Clearing Business, Article 8.

¹⁵ *cf.* Handling Procedures of IRS Clearing Business, Article 9.

¹⁶ *cf.* IRS Clearing Business Rules, Article 5.

- (50) “Initial Margin” means Japanese yen Cash, Cash in a currency other than Japanese yen designated by JSCC¹⁷ or Eligible Securities Collateral deposited with JSCC by a Clearing Participant or a Customer for the purpose of securing the obligations prescribed in Article 61.1.(1);
- (51) “Special Clearing Charge” collectively refers to the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge;
- (52) “Special Clearing Charge Collateral” collectively refers to the Third Tier Special Clearing Charge Collateral and the Fourth Tier Special Clearing Charge Collateral;
- (52)-2 “Per Trade Compression” means a process of conducting Compression through a method prescribed by JSCC in accordance with the provisions of Article 53;
- (53) “Transaction Side” means a distinction of a leg under an IRS Transaction set forth in a. or b. below in accordance with the classification of IRS Transactions set forth in each such item:
- a. IRS Transaction in which both parties are obliged to pay Floating Rates: distinction of each side under such IRS transaction in which both parties are obliged to pay Floating Rates pursuant to Confirmation or the Rules, or
 - b. IRS Transaction other than the above: distinction between Floating Rate Payer or Fixed Rate Payer
- (54) “Intraday Margin” means Initial Margin to be deposited pursuant to Article 67 through Article 70 hereof.
- (54)-2 “New York Business Day” means any day on which banks are open for business in New York City, U.S.A. and fund settlement in United States dollars is performed:
- (54)-3 (Deleted)
- (54)-4 “Non-hedge Account” means a classification of Customer Account designated as non-hedge account pursuant to the provisions of Article 59.7.
- (55) “Default Contingent Margin” means Japanese yen Cash, Cash in a currency other than Japanese yen designated by JSCC¹⁸ or Eligible Securities Collateral to be deposited with JSCC by a Clearing

¹⁷ cf. Handling Procedures of IRS Clearing Business, Article 2-2.

¹⁸ cf. Handling Procedures of IRS Clearing Business, Article 2-2.

Participant for the purpose of securing the obligations set forth in Article 108.1 hereof.

- (56) “Default Settlement Period” means a period of 30 days from the Default Determination Date with respect to the Default of such Clearing Participant, except in the case where another Default is determined during an existing Default Settlement Period, in which case, the Default Settlement Period shall be extended to the day 30 days after the Default Determination Date for such subsequently occurred Default;
- (57) “Default Auction” means the Default Auction prescribed in Article 95;
- (58) “Defaulting Clearing Participant” means a Clearing Participant determined by JSCC to be in Default, and when Defaulting Clearing Participant is acting for a Customer, it may also be referred to as “Defaulting Clearing Broker”;
- (59) “Default” means any of the following events and actions:
- a. Become, or be likely to become, unable to pay (as prescribed in Article 2.11 of the Bankruptcy Act (Act No. 75 of 2004)) or to become insolvent with excess liabilities (as prescribed in Article 16.1 of the Bankruptcy Act);
 - b. Become subject to suspension of transactions by a clearinghouse or an Electronic Monetary Claim Recording Institution defined in Article 2.2 of the Electronically Recorded Monetary Claims Act (Act No. 102 of 2007);
 - c. Suspend its payment (meaning suspension of payment by which insolvency is presumed pursuant to the provisions of Article 15.2 of the Bankruptcy Act) or occurrence of similar events;
 - d. Dissolve itself (excluding dissolution due to a merger);
 - e. Petition for commencement of bankruptcy proceedings, commencement of rehabilitation proceedings, commencement of reorganisation proceedings or commencement of special liquidation or acknowledgement of foreign insolvency proceedings is filed (including the petitions equivalent thereto under any foreign laws and regulations);
 - f. An event which causes commencement of bankruptcy proceedings, rehabilitation proceedings, reorganisation proceedings or special liquidation (including that equivalent thereto under any foreign laws and regulations) has occurred; or

- g. Only with respect to Clearing Participants whose Cross Margined JGB Futures Cleared Contracts are recorded on their Clearing Participant Accounts (other than those which also are JGB Futures Clearing Participants), an acceleration of obligations under an Agreement for Setting up Futures/Options Trading Account prescribed by the Designated Market Operator for brokerage of JGB Futures Contracts or under a Contract for Commissioning Clearance Relating to JGB Futures, Etc. Contracts concluded for brokerage of Clearing pursuant to the provisions of Article 39 of the Securities and Similar Contracts Business Rules;
- (60) “Default Determination Date” means the day on which JSCC determines the Default of a Clearing Participant;
- (60)-2 “Backup Clearing Broker” means a Clearing Broker (limited to the one who has obtained an approval set forth in Article 12-2) who has been designated by a Customer in advance in accordance with the provisions of Article 45-2 as a Clearing Broker to succeed to the claims and obligations related to the Cleared Contracts (Customer Account) and the Customer Clearing Contracts executed on the account of the relevant Customer when a Default is acknowledged with respect to the Clearing Broker who then is providing the Customer Clearing to the relevant Customer.
- (61) (Deleted);
- (62) “Non-resident” means a non-resident prescribed in Article 6.1.(6) of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949);
- (62)-2 “USD Cleared Contract” means a Cleared Contract whose Notional Amount and settlement currency are denominated in United States dollars;
- (62)-3 “Hedge Account” means a classification of Customer Account notified as hedge account pursuant to the provisions of Article 59.7.
- (63) “Variation Margin” shall collectively refer to the Cash listed in the following items:
- a. The Cash received and paid between a Clearing Participant and JSCC on each JSCC Business Day for the purpose of securing the obligations listed in Article 61.1.(3);
 - b. The Cash received and paid between a Clearing Broker and JSCC on each JSCC Business Day for the purpose of securing the obligations listed in Article 61.1.(4); and
 - c. The Cash received and paid between a Clearing Broker and a Customer on each JSCC Business

Day for the purpose of securing the obligations listed in Article 61.1.(5).

- (63)-2 “Cash Settlement Amount” means Variation Margin, interest on Variation Margin, amount to be settled and other Cash to be paid or received under Cleared Contracts.
- (64) “Legal Entity” means a corporate body, an association or any other entities equivalent thereto (including overseas entities equivalent thereto);
- (65) “Rules” shall collectively refer to the Business Rules, the Subordinate Rules and Documents Setting Forth Handling of ISDA-Based Documents;
- (66) “Liquid Resources for Loss Recovery” means the Third Tier Special Clearing Charge and the Fourth Tier Special Clearing Charge.
- (67) “Consolidated Capital-to-Risk Ratio” means the consolidated capital-to-risk ratio set forth in the Article 2 of “Establishment of Criteria for Judgment on the Adequacy of Equity Capital of a Special Financial Instruments Business Operator and its Subsidiary Entities in Light of Assets, etc. Held by Such Special Financial Instruments Business Operator and its Subsidiary Entities”(Financial Services Agency Public Notice No. 128 of 2010);
- (68) “Officer” means an officer prescribed in Article 329 of the Company Act (Act No.86 of 2005) (in respect of a Legal Entity other than a limited company¹⁹, a person who is treated as equivalent to an officer of a limited company under the applicable laws and regulations);
- (68)-2 “EUR Cleared Contract” means a Cleared Contract whose Notional Amount and settlement currency are denominated in Euro.
- (69) “ISDA” means International Swaps and Derivatives Association, Inc.;
- (70) “Documents Setting Forth Handling of ISDA-Based Documents” mean the documents prescribed by JSCC by notification to Clearing Participants or public notice in connection with the matters necessary to apply the ISDA Master Agreement and the ISDA Definitions to a Cleared Contract and any other matters in accordance with the provisions of the Subordinate Rules²⁰;
- (71) “ISDA Master Agreement” means the 2002 ISDA Master Agreement published by ISDA in 2003

¹⁹ Kabushiki Kaisha under the Company Act.

²⁰ *cf.* Handling Procedures of IRS Clearing Business, Article 10.

(including any changes, amendments or supplements in writing published by ISDA and specified by JSCC) which shall be applied to Cleared Contracts;

(72) “ISDA Definitions” means the 2021 ISDA Interest Rate Derivatives Definitions published by ISDA in 2021 (including any changes, amendments or supplements published by ISDA and specified by JSCC²¹);

(72)-2 “JSCC-Initiated Compression” means a process to conduct Compression of a package of Cleared Contracts related to two or more Clearing Participants or Customers as prescribed by JSCC in accordance with the provisions of Article 53-2-4;

(73) “TARGET Settlement Day” means any day on which Trans-European Automated Real-Time Gross Settlement Express Transfer System, a Euro fund settlement system, is in operation and a fund settlement in Euro is performed.

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

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

Article 17. Deposit of IRS Clearing Fund

1 A Clearing Participant shall deposit its IRS Clearing Fund with JSCC pursuant to the Subordinate Rules⁴⁰ in order to secure any and all obligations owed by such Clearing Participant to JSCC in respect of the IRS Clearing Business, including the obligations to be borne by such Clearing Participant to recover losses incurred by JSCC due to a Default of one or more other Clearing Participants and the losses arising upon such Default in relation to claims and obligations which come into existence between JSCC and the Clearing Participant pursuant to the provisions of Article 84-5.1.

2 When the deposited balance of the IRS Clearing Fund, or, if all or a part of the deposited IRS Clearing Fund has been used to recover losses incurred by JSCC in accordance with the Rules following the Default of another Clearing Participant, the balance of the IRS Clearing Fund remaining thereafter is less than the required amount of such IRS Clearing Fund prescribed in the Subordinate Rules⁴¹ (“Required IRS Clearing

²¹ *cf.* Handling Procedures of IRS Clearing Business, Article 11.

⁴⁰ Rules on Required IRS Clearing Fund. For method of deposit, see also Handling Procedures of IRS Clearing Business, Article 18.

⁴¹ Rules on Required IRS Clearing Fund, Article 2.

Fund”), the Clearing Participant shall deposit with JSCC an amount at least equal to such shortfall by 2:00 p.m. on the JSCC Business Day immediately following the day on which such shortfall occurs.

3 When Cash in a currency other than Japanese yen is deposited under Paragraphs 1 and 2 above, the value equal to Japanese yen equivalent of one unit of such currency converted using the foreign exchange rate prescribed by JSCC⁴² multiplied by the rate prescribed by JSCC⁴³ shall be used as appraisal multiplier.

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

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

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

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

Article 63. Obligation to Deposit Initial Margin

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

(1) Proprietary Cleared Contract

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

⁴² cf. Handling Procedures of IRS Clearing Business, Article 18-2.1.

⁴³ cf. Handling Procedures of IRS Clearing Business, Article 18-2.2.

(2) Customer's Cleared Contract

- a. A Customer shall deposit with JSCC Cash or Eligible Securities Collateral in an amount not less than the Required Initial Margin in relation to the Customer's Cleared Contracts for such Customer as Initial Margin. If the Clearing Broker and the Customer separately agree otherwise, the amount to be deposited shall be the amount calculated based on such agreement or the Required Initial Margin, whichever is larger (the same rule shall apply hereinafter).
- b. Deposit of Initial Margin by a Customer with JSCC pursuant to a. above shall be made through a Clearing Broker prescribed in a. above acting as its agent in accordance with the provisions of Article 72.
- c. When a Customer deposits the Customer Initial Margin with a Clearing Broker in accordance with Article 73, the amount of such Customer Initial Margin shall be deducted from the Required Initial Margin to be deposited with JSCC by such Customer. In such case, the Clearing Broker shall deposit with JSCC, as Substituted Initial Margin, Cash or Eligible Securities Collateral in an amount not less than the Customer Initial Margin deposited by the Customer with such Clearing Broker.
- d. When a Customer Buffer is allocated to a Customer Account pursuant to the provisions of Article 84-7.1, the amount so allocated shall be deducted from the Required Initial Margin to be deposited by the Customer with JSCC.

2 The provisions of Article 17.3 shall apply *mutatis mutandis* to Initial Margin.

Article 67. Obligation to Deposit Intraday Margin

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

(1) Proprietary Cleared Contract

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

(2) Customer's Cleared Contract

- a. A Customer shall deposit with JSCC Cash or Eligible Securities Collateral in an amount not

less than the Required Intraday Margin in relation to a Customer's Cleared Contract for such Customer as Initial Margin. If the Clearing Broker and the Customer separately agree otherwise, the amount to be deposited shall be the amount calculated based on such agreement or the Required Intraday Margin, whichever is larger (the same rule shall apply hereinafter).

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

2 The provisions of Article 17.3 shall apply *mutatis mutandis* to Intraday Margin.

Article 89. Actions to be Taken in Case of Occurrence of Failure of Settlement and Default

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

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

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

4 If the Funds to be applied pursuant to the provisions of Paragraph 3 consist of securities, JSCC may liquidate them and apply the amount remaining after the payment of cost of such liquidation. The manner, time and price are at JSCC's discretion.

5 If the Funds to be applied pursuant to the provisions of Paragraph 3 consist of Cash in a currency other than Japanese yen, JSCC may convert such Cash into Japanese yen and apply the amount remaining after deducting cost required for such conversion.

Article 101. Method for Settlement of Defaulting Clearing Participant's Cleared Contracts

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

- (1) Unsettled Obligations shall be:
 - a. Payment obligation for the Early Termination Charge payable by the Defaulting Clearing Participant to JSCC in respect of the currency of the relevant Defaulting Clearing Participant's Cleared Contracts as a result of termination of the Defaulting Clearing Participant's Cleared Contracts;
 - b. Obligation to return Variation Margin deposited by JSCC with the Defaulting Clearing Participant for the Defaulting Clearing Participant's Cleared Contracts and the payment obligation for the accrued interests on such Variation Margin. Variation Margin and interests on Variation Margin related to the Defaulting Clearing Participant's Cleared Contracts whose Notional Amount and settlement currency are denominated in a currency other than Japanese yen shall be converted into Japanese yen in the manner prescribed by JSCC in the Subordinate Rules²³², the same applies in below Item (2);
 - c. Any unsettled obligation of the Defaulting Clearing Participant in relation to any Cleared

²³² *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-2.

Contract in the relevant currency that has already become due at the time when the occurrence of the Default of such Defaulting Clearing Participant is determined. The unsettled obligation in relation to the Defaulting Clearing Participant's Cleared Contracts whose Notional Amount and settlement currency are denominated in a currency other than Japanese yen shall be converted into Japanese yen in the manner prescribed by JSCC in the Subordinate Rules²³³, the same applies in below Item (2);

- d. Payment obligations in respect of the currency of the Defaulting Clearing Participant's Cleared Contracts owed by the Defaulting Clearing Participant pursuant to the provision of Article 99-2.2. The payment obligations in respect of the Defaulting Clearing Participant's Cleared Contracts whose Notional Amount and settlement currency are denominated in a currency other than Japanese yen shall be converted into Japanese yen in the manner prescribed by JSCC in the Subordinate Rules²³⁴;and
- e. Payment obligations in respect of the currency of the Defaulting Clearing Participant's Cleared Contracts owed by the Defaulting Clearing Participant pursuant to the provision of Article 101. The payment obligations in respect of the Defaulting Clearing Participant's Cleared Contracts whose Notional Amount and settlement currency are denominated in Japanese yen shall include those related to claims and obligations came into effect pursuant to the provisions of Article 84-5.1. The payment obligations in respect of the Defaulting Clearing Participant's Cleared Contracts whose Notional Amount and settlement currency are denominated in a currency other than Japanese yen shall be converted into Japanese yen in the manner prescribed by JSCC in the Subordinate Rules²³⁵, the same applies in below Item (2).

(2) Netting and application of collateral to be conducted by each currency of the Defaulting Clearing Participant's Cleared Contracts shall be conducted pursuant to the following provisions:

- a. The amount of the Early Termination Charge payable by JSCC for the relevant currency shall be deducted from the total amount of the Unsettled Obligations for the relevant currency set forth in Item (1) ("Defaulting Clearing Participant Payment Amount"). If any Cross Margined JGB Futures Cleared Contract is booked on the Clearing Participant Account of the Defaulting Clearing Participant, the amount of the Early Termination Charge payable by JSCC in respect

²³³ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-2.

²³⁴ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-3.

²³⁵ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-2.

of the Defaulting Clearing Participant's JPY Cleared Contracts shall include JSCC's payment obligations related to the claims and obligations which have come into effect pursuant to the provisions of Article 84-5.1;

- b. Variation Margin deposited with JSCC by the Defaulting Clearing Participant for the Defaulting Clearing Participant's Cleared Contracts shall be applied to the payment of the Unsettled Obligations in respect of the relevant currency, and the amount so applied shall be deducted from the total amount of Unsettled Obligations remaining after the deduction set forth in a. above;
- c. The Funds of which delivery to the Defaulting Clearing Participant has been suspended pursuant to the provisions of Article 89.2 shall be applied to the payment of the Unsettled Obligations in respect of the relevant currency, and the amount so applied shall be deducted from the total amount of Unsettled Obligations remaining after the deduction set forth in b. above, provided that, for securities, the proceeds from their liquidation remaining after payment of cost of liquidation shall be applied to the payment of the Unsettled Obligations, and for Cash in a currency other than Japanese yen, the amount of the Japanese yen equivalent converted in the manner prescribed by JSCC in the Subordinate Rules²³⁶ remaining after deducting cost required for such conversion shall be applied to the payment of the Unsettled Obligations;
- d. Initial Margin deposited for the Defaulting Clearing Participant's Cleared Contracts and allocated by each currency type using the allocation ratio prescribed by JSCC in the Subordinate Rules²³⁷ other than Initial Margin of which the Customer has the right to claim return pursuant to the provisions of Article 76 shall be applied to the payment of the Unsettled Obligations in respect of the relevant currency, and the amount so applied shall be deducted from the total amount of Unsettled Obligations remaining after the deduction set forth in c. above, provided that, for Initial Margin in the form of securities, the proceeds from their liquidation remaining after payment of cost of liquidation shall be applied to the payment of the Unsettled Obligations;
- e. The IRS Clearing Fund and the Default Contingent Margin deposited by the Defaulting Clearing Participant and allocated by each currency type of the Defaulting Clearing Participant's Cleared

²³⁶ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-2.

²³⁷ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-3.1.

Contracts using the allocation ratio prescribed by JSCC in the Subordinate Rules²³⁸ shall be applied to the payment of the Unsettled Obligations in respect to the relevant currency, and the amount so applied shall be deducted from the amount of Unsettled Obligations remaining after the deduction set forth in d. above, provided that for securities deposited as the IRS Clearing Fund or the Default Contingent Margin, the proceeds from their liquidation remaining after payment of cost of liquidation shall be applied to the payment of the Unsettled Obligations; and

- f. The excess collateral deposited by the Defaulting Clearing Participant to secure its obligations under any Other Clearing Business and allocated by each currency type of the Defaulting Clearing Participant's Cleared Contracts using the allocation ratio prescribed by JSCC in the Subordinate Rules²³⁹ shall be applied to the payment of the Unsettled Obligations in respect to the relevant currency, and the amount so applied shall be deducted from the Unsettled Obligations remaining after the deduction set forth in e. above. As used herein, "excess collateral" means margin, clearing fund and any other collateral deposited by the Defaulting Clearing Participant with JSCC in respect of any of the Other Clearing Businesses, to which the Defaulting Clearing Participant has the right to claim return, remaining after application thereof to the payment of the Defaulting Clearing Participant's obligations in accordance with the business rules of such Other Clearing Business, provided that in the case of the excess collateral in the form of securities, it shall be the amount of proceeds of their liquidation remaining after the cost of such liquidation.

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

Article 108. Deposit of Default Contingent Margin

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

²³⁸ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-3.2.

²³⁹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 17-3.2.

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

3 The calculation method for the required amount of Default Contingent Margin applicable to a non-Defaulting Clearing Participant shall be set forth in the Subordinate Rules²⁶⁰.

4 JSCC shall notify a non-Defaulting Clearing Participant of the required amount of Default Contingent Margin in the manner specified in the Subordinate Rules²⁶¹.

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

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

7 The provisions of [Article 17.3](#), Article 61.3, Article 62 and Article 71 shall apply *mutatis mutandis* to Default Contingent Margin.

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

JSCC may use any excess collateral delivered by a Defaulting Clearing Participant in relation to IRS Clearing Business to satisfy the Defaulting Clearing Participant's obligation owed to an Other Clearing Business in accordance with the business rules of the Other Clearing Business. Excess collateral is the amount of Initial Margin, Variation Margin, IRS Clearing Fund, Default Contingent Margin and Special Clearing Charge Collateral, or, if they are deposited in the form of Eligible Securities Collateral, the net proceeds from liquidation of such securities after the payment of liquidation costs, [or, if they are deposited in Cash in a currency other than Japanese yen, the amount remaining after deducting cost required for conversion of the Cash in a currency other than Japanese yen into Japanese yen](#), of which the Defaulting Clearing Participant

²⁶⁰ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 26.1.

²⁶¹ *cf.* Rules on Default Settlement Regarding Clearing Participants in Relation to IRS Clearing Business, Article 26.2.

otherwise has the right to claim return from JSCC in connection with IRS Clearing Business, that remains after satisfaction of the Defaulting Clearing Participant's obligations in relation to IRS Clearing Business in accordance with the Rules

Supplementary Provisions

1. These amendments shall come into force as of April 1, 2024.

2. Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after April 1, 2024.

Handling Procedures of Interest Rate Swap Business Rules

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

Note : JSCC hereby certifies that to the best of its knowledge, the foregoing is a fair and accurate English translation of a document originally written in Japanese. In the event of any inconsistency between the original Japanese document and this reference English translation, the original Japanese document will prevail.

Article 2-2. Currency Designated by JSCC

The currency designated by JSCC under Article 2.1.(1)-2, (11), (50) and (55) of the Business Rules shall be United States dollars.

Article 18. Funds Settlement Method

1 The settlement of Japanese yen Cash under Article 17.1, Article 71, or Article 107.1.(1) of the Business Rules shall be performed through a bank account transfer between the current account opened in the name of JSCC with the Bank of Japan and the current account opened in the name of the relevant Clearing Participant with the Bank of Japan through BOJ-NET.

2 A Clearing Participant may remit or receive Cash described in Paragraph 1 through its agent if the Clearing Participant submits to JSCC a document stating the matters required by JSCC and obtains the prior approval of JSCC. Such remittance and receipt shall be made through the current account in the name of the agent opened with the Bank of Japan.

3 The settlement of Cash in United States dollars under Article 17.1 or Article 71 of the Business Rules shall be performed through a credit to the account opened in the name of JSCC at the bank designated by JSCC.

Article 18-2. Foreign Exchange Rate Prescribed by JSCC

1 The foreign exchange rate prescribed by JSCC under Article 17.3 of the Business Rules (including the cases to which such provisions apply *mutatis mutandis* in Article 63.2, Article 67.2 and Article 108.7 of the Business Rules; the same applies in this Article) shall be the Telegraphic Transfer Spot Buying Rate of Japanese yen to 1 USD at Tokyo foreign exchange market on the second day preceding the date of deposit of the IRS Clearing Fund.

2 The rate prescribed by JSCC under Article 17.3 shall be 95%.

Article 44. Management of Clearing Deposit

1 The manner to be prescribed under Article 87.1 of the Business Rules shall be, depending upon the asset class of the Clearing Deposit (excluding Initial Margin deposited by Customers), as follows:

(1) Japanese yen Cash

To keep it by separating from JSCC's proprietary assets, assets under management of JSCC for other clearing business and Initial Margin of Customers in either of the following forms of custody:

a. Deposit in bank settlement accounts opened in the name of JSCC by type of the Clearing Deposit; or

b. In money trust to a bank which engages in trust business,

and to manage it on the accounting book by Clearing Participant and by type of the Clearing Deposit. As used herein, the types of Clearing Deposit are IRS Clearing Fund, Initial Margin, the Third Tier Special Clearing Charge Collateral and Default Contingent Margin.

(1)-2 United States dollar Cash

To keep it by separating from JSCC's proprietary assets, assets under management of JSCC for other clearing business and Initial Margin of Customers in either of the following forms of custody:

a. Deposit in bank ordinary accounts opened in the name of JSCC by type of the Clearing

Deposit; or

b. In money trust to a bank which engages in trust business,

and to manage it on the accounting book by Clearing Participant and by type of the Clearing Deposit.

(2) Japanese Government Bonds

To keep it by separating from JSCC's proprietary assets in either of the following forms of custody:

a. Record in a segregated account opened and maintained in the name of JSCC with the Bank of Japan under the JGB book-entry system operated by the Bank of Japan; or

b. In trust to a bank which engages in trust business,

and to manage it on the accounting book by Clearing Participant and by type of the Clearing Deposit.

(3) US Treasuries

To keep it by separating from JSCC's proprietary assets, assets under management of JSCC for other clearing business and Initial Margin of Customers in either of the following forms of custody:

a. Record in an account opened in the name of JSCC with a bank located in the City of New York, the State of New York, the United States of America; or

b. In trust to a bank which engages in trust business,

and to manage it on the accounting book by Clearing Participant and by type of the Clearing Deposit.

2 The manner of segregation of Initial Margin of Customers other than those set forth in Paragraph 6 below to be prescribed under Article 87.1 of the Business Rules shall be, depending upon the asset class of Initial Margin of Customers, as follows:

(1) Japanese yen Cash

To keep it by separating from JSCC's proprietary assets, assets under management of JSCC for other clearing business and Clearing Deposits deposited by Clearing Participants in either of the following forms of custody:

a. Deposit in a bank settlement account opened in the name of JSCC; or

b. In money trust to a bank which engages in trust business,

and to manage it on the accounting book by Customer.

(1)-2 United States dollar Cash

To keep it by separating from JSCC's proprietary assets, assets under management of JSCC for other clearing business and Clearing Deposits deposited by Clearing Participants in either of the following forms of custody:

a. Deposit in bank ordinary accounts opened in the name of JSCC by type of the Clearing Deposit; or

b. In money trust to a bank which engages in trust business,

and to manage it on the accounting book by Customer.

(2) Japanese Government Bonds

To keep it by separating from JSCC's proprietary assets in either of the following forms of custody:

a. Record in a segregated account opened and maintained in the name of JSCC with the Bank of Japan under the JGB book-entry system operated by the Bank of Japan; or

b. In trust to a bank which operates trust business,

and to manage it on the accounting book by Customer.

(3) US Treasuries

To keep it by separating from JSCC's proprietary assets, assets under management of JSCC for other clearing business and Clearing Deposits deposited by Clearing Participants in either of the following forms of custody:

a. Record in an account opened in the name of JSCC with a bank located in the City of New York, the State of New York, the United States of America; or

b. In trust to a bank which engages in trust business,

and to manage it on the accounting book by Customer.

3 Notwithstanding the provisions of Paragraphs 1 and 2 above, if a notification of such effect is received from a Clearing Participant or a Customer, the manner to be prescribed by JSCC under Article 87.1 of the Business Rules related to Japanese yen Cash deposited by the Clearing Participant or the Customer as IRS Clearing Fund, Initial Margin and Default Contingent Margin shall be the manner to keep it by separating from JSCC's proprietary assets and assets under management of JSCC for other clearing businesses in the form of custody of a deposit in the current account opened in the name of JSCC at the Bank of Japan, which is designated by JSCC, and to manage it on the accounting book for each Clearing Participant or Customer and by the type of Clearing Deposit; provided, however, that the amount of Cash to be held in the manner set forth in this Paragraph shall not be more than the cap prescribed by JSCC in a notification or a public notice, and the portion of such Cash exceeding the cap, if any, shall be held in the manner set forth in Paragraph 1.(1).b or Paragraph 2.(1).b. by separating it according to the classification set forth in Paragraphs 1 and 2, and to manage it on the accounting book kept separately for each Clearing Participant or Customer and by the type of Clearing Deposit.

4 The provisions of Paragraph 3 above shall not apply in the case where the current account JSCC may designate does not exist.

5 The notification to be submitted by a Clearing Participant or a Customer as set forth in Paragraph 3 and any withdrawal thereof shall be made in advance in a manner prescribed by JSCC in a notification or a public notice.

6 The manner of segregation of Initial Margin of a Customer who has concluded the Clearing Brokerage

Agreement with a Clearing Participant who is the Futures Commission Merchant (“FCM”) as set forth in U.S. Commodity Exchange Act (“FCM Clearing Participant”) to be prescribed under Article 87.1 of the Business Rules shall be to keep it, by separating from JSCC’s proprietary assets, assets under management of JSCC for other clearing business, Clearing Deposits deposited by Clearing Participants and Initial Margin deposited by Customers referred to in Paragraph 2 above, under CFTC Regulation 1.49, in trust to a bank engaging in trust business, and to manage it maintaining records by each Customer.

Article 44-2. Clearing Deposit Management

1 The management carried out by JSCC as set forth in Article 87.2 of the Business Rules in respect of IRS Clearing Fund, Initial Margin and Default Contingent Margin deposited in Cash by Clearing Participants and Customers with JSCC which is under management pursuant to Article 44.1.(1).b. and Article 44.2.(1).b. will be carried out via any of the following mechanisms:

- (1) Secured call loan to financial institutions;
- (2) Loan to the bank engaging in trust business which has accepted trust of IRS Clearing Fund, Initial Margin and Default Contingent Margin; or
- (3) Ordinary deposit with the bank engaging in trust business which has accepted trust of IRS Clearing Fund, Initial Margin and Default Contingent Margin.

2 The management carried out by JSCC as set forth in Article 87.2 of the Business Rules in respect of Initial Margin deposited in Cash by a Customer having the Clearing Brokerage Agreement with a FCM Clearing Participant shall be carried out through an ordinary deposit to the bank engaging in trust business which has accepted trust of Initial Margin of said Customer.

3 The management carried out by JSCC as set forth in Article 87.2 of the Business Rules in respect of IRS Clearing Fund, Initial Margin and Default Contingent Margin deposited in Cash by Clearing Participants and Customers with JSCC which is under management pursuant to Article 44.1.(1)-2.b. and Article 44.2.(1)-2.b. will be carried out via any of the following mechanisms:

- (1) Reverse repo transactions with financial institutions;
- (2) Loan to the banks either:
 - a. engaging in trust business which has accepted trust of IRS Clearing Fund, Initial Margin and Default Contingent Margin (or their Affiliates; the same applies in this Paragraph); or
 - b. used for settlements of IRS Clearing Fund, Initial Margin and Default Contingent Margin which are designated by JSCC;
- (3) Ordinary deposit with the bank listed in Item (2) above; or
- (4) Deposit in the custody account of the bank engaging in trust business which has accepted trust of IRS Clearing Fund, Initial Margin and Default Contingent Margin.

Article 44-3. Treatment of Profit or Loss from Management of Clearing Deposit

- 1 The amount of interest set forth in Article 87.4 of the Business Rules shall be determined by prorating the remaining profit earned from the management after payment of the amount specified by JSCC in a public notice according to the average, over the period designated by JSCC in a public notice, of the sum of IRS Clearing Fund, Initial Margin and Default Contingent Margin deposited in Cash by the Clearing Participant or the Customer (other than those held in the form of a custody of a deposit in the current account opened in the name of JSCC at the Bank of Japan pursuant to the provisions of Article 44.3). The amount of interest under this Paragraph shall be determined separately by the type of currency of Cash deposited as IRS Clearing Fund, Initial Margin and Default Contingent Margin.
- 2 JSCC shall pay interest calculated according to the provisions of Paragraph 1 to Clearing Participants and Customers. Interest payable to a Customer shall be paid to the Clearing Broker for such Customer, which shall then pay the entire amount of interest received from JSCC as interest payable to the Customer to the relevant Customer as interest calculated pursuant to the provisions of Paragraph 1.
- 3 A Clearing Participant's or Customer's share of loss set forth in Article 87.5 of the Business Rules shall be determined by prorating such loss according to the sum of IRS Clearing Fund, Initial Margin and Default Contingent Margin deposited in Cash by the Clearing Participant or the Customer (other than those held in the form of custody of a deposit in the current account opened in the name of JSCC at the Bank of Japan pursuant to the provisions of Article 44.3) as of the date and time specified by JSCC in a public notice. A Clearing Participant's or Customer's share of loss under this Paragraph shall be determined separately by the type of currency of Cash deposited as IRS Clearing Fund, Initial Margin and Default Contingent Margin.
- 4 Under Article 87.6 of the Business Rules JSCC shall prorate the Clearing Participant's or Customer's share of loss obtained pursuant to the provisions of Paragraph 3 according to IRS Clearing Fund, Initial Margin and Default Contingent Margin deposited in Cash by the Clearing Participant or the Customer as of the date and time set forth in Paragraph 3, and apply IRS Clearing Fund, Initial Margin and Default Contingent Margin deposited in Cash with JSCC to the payment of such loss.

Supplementary Provision

1. These amendments shall come into force as of April 1, 2024.
2. Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after April 1, 2024.