

30 June, 2010

Japan Securities Clearing Corporation

Outline of OTC Derivatives Clearing Operations and Relevant Issues

In response to the recent financial crisis, global efforts aimed at reducing risks are being continued. Especially, with respect to OTC derivatives trades, it is widely recognized that there is a necessity to increase safety and transparency for OTC derivatives trades.

Under such circumstances, JSCC set up the "Working Group on Clearing Operations for OTC Derivatives Trades" jointly with Tokyo Stock Exchange, Inc. on 22 May 2009 in order to provide clearing function for widely-traded Interest Rate Swaps and rapidly-expanding Credit Default Swaps. From 21 July 2009, ten working group meetings were held for intensive discussion among all the active market players in Japan.

Based on working group's discussions, JSCC announced today that it will take the following course of action:

1. Interest-Rate Swaps (IRS)

Given the situation where LCH.Clearnet Ltd. (LCH) has been providing clearing services for IRS trades for major financial institutions outside of Japan, it would be useful to create a link with LCH for provision of IRS clearing. JSCC will continue discussion with LCH pursuing the direction to create a link in order to provide the clearing services for IRS as soon as possible.

2. Credit Default Swaps (CDS)

On 19 May 2010, the Financial Instruments and Exchange Act was amended so that use of domestic central clearing institution is expected to be mandated by November 2012 for CDS trades. To provide clearing services for CDS trades promptly, JSCC has decided to introduce CDS clearing ahead of IRS trades. JSCC published the "Outline of Credit Default Swaps Clearing at Japan Securities Clearing Corporation" as attached and will continue discussion on detailed operational procedure and other related matters with major market players to commence CDS clearing in the second quarter of 2011.

(*1) Launch of the CDS clearing is subject to the approval of JSCC's Business Rules by the Financial Services Agency Commissioner.

(*2) The draft outline may be subject to changes in response to discussion with working group members and examinations by the Financial Services Agency.

Outline of Credit Default Swaps Clearing at Japan Securities Clearing Corporation

Japan Securities Clearing Corporation

Item	Details	Remarks
<p>1. Trades eligible for clearing</p>	<p>- To be eligible for clearing, Credit Default Swaps (CDS) trades must meet all of the following requirements:</p> <p>1) A trade which is executed in accordance with ISDA* Master Agreements. *International Swaps and Derivative Association, Inc.</p> <p>2) A trade which is verified by methods prescribed by the Japan Securities Clearing Corporation (hereinafter referred to as the “JSCC”)</p> <p>3) A trade which is conducted between clearing participants of JSCC, and they agree to use JSCC services.</p> <p>4) A trade which is an iTraxx Japan index trade.</p> <p>5) A trade which is denominated in Japanese Yen (JPY).</p>	<p>-The possible expansion of the range of the products to be cleared will be considered later, based on the needs of users.</p> <p>-Since issues between JSCC and its clearing participants are stipulated under JSCC's Business Rules, no ISDA agreements will be concluded between JSCC and its participants.</p> <p>-Specifically a trade shall be verified through Deriv/SERV (DS Match) and recorded in the Trade Information Warehouse (TIW).</p> <p>-Regarding Deriv/SERV (DS Match) and TIW, it is assumed that consent can be obtained from The Depository Trust & Clearing Corporation (DTCC) (hereinafter the same shall apply to items related to TIW)</p> <p>-Such trade includes those based on the brokerage for clearing of securities.</p> <p>-The index shall be the iTraxx Japan main indices (iTraxx Japan 50 and iTraxx Japan 80).</p>

Item	Details	Remarks
<p>2. Clearing Participant System</p> <p>(1) CDS Clearing Qualifications</p>	<p>6) A credit event (CE) which is “3CE”.</p> <p>7) The notional principal amount is no more than JPY 10 billion.</p> <p>8) The maximum residual term is no longer than 10 years and 3 months.</p> <p>9) A trade which recognizes business days as those of Tokyo, New York or London.</p> <p>10) A trade which utilizes the Following or Modified Following convention for business day adjustment.</p> <p>11) A trade which utilizes Actual/365, Actual/Actual, Actual/365(Fixed), Actual/360, 30/360, 360/360, Bond Basis or 30E/360 for day count calculations.</p> <p>12) A trade which meets the handling conditions prescribed by the JSCC.</p> <p>-Outstanding trades which satisfy the above conditions shall be eligible for clearing.</p> <p>- Clearing qualification for CDS (CDS Clearing Qualification) shall be newly established. Participants who have obtained such qualification shall be regarded as clearing participants of CDSs (CDS Clearing Participant).</p>	<p>-Regarding restructuring for a Credit Event, only old-restructuring is eligible for clearing.</p> <p>-The upper limit of notional principal amount for the outstanding trades will be considered later.</p> <p>-These are as defined in the ISDA Definitions.</p> <p>-Each calculation method is as defined in the ISDA Definitions.</p> <p>-CDS Clearing Qualification shall be treated as a different qualification from existing JSCC’s Clearing Qualifications (those for cash products, individual equity options, JGB futures/options and Index futures/options).</p> <p>-No classification by category of Principal/Agency</p>

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<p>(2) Requirements for obtaining/maintaining CDS Clearing Qualification</p>	<p>- Applicants who meet all of the following requirements can obtain CDS Clearing Qualification following due approval by JSCC.</p> <p>1) An applicant company which is a Financial Instruments Business Operator or a Registered Financial Institution.</p> <p>2) Financial conditions shall meet the provided criteria and a stable capacity to earn profits shall be expected; provided, however, that in the case an affiliate company (a parent company, etc.) of a participant which meets the criteria for net assets and rating acts to guarantee the clearing participant, the criteria for net assets and rating shall not apply to such participant.</p> <p>[Criteria for Financial Instruments Business Operators]</p> <table border="1" data-bbox="501 743 1144 963"> <thead> <tr> <th>Item</th> <th>Criteria</th> </tr> </thead> <tbody> <tr> <td>Net Assets</td> <td>No less than JPY 500 billion</td> </tr> <tr> <td>Net Capital Regulation Ratio</td> <td>Over 200%</td> </tr> <tr> <td>Rating</td> <td>Equivalent of A rating or higher</td> </tr> </tbody> </table> <p>[Criteria for Registered Financial Institutions]</p> <table border="1" data-bbox="501 1007 1144 1398"> <thead> <tr> <th>Item</th> <th>Criteria</th> </tr> </thead> <tbody> <tr> <td>Net Assets</td> <td>No less than JPY 500 billion</td> </tr> <tr> <td>Capital Adequacy Ratio (Notice 1, 2)</td> <td>International: Over 8% Domestic: Over 4%</td> </tr> <tr> <td>Solvency Margin Ratio (Notice 3)</td> <td>Over 400%</td> </tr> <tr> <td>Rating</td> <td>Equivalent of A rating or higher</td> </tr> </tbody> </table>	Item	Criteria	Net Assets	No less than JPY 500 billion	Net Capital Regulation Ratio	Over 200%	Rating	Equivalent of A rating or higher	Item	Criteria	Net Assets	No less than JPY 500 billion	Capital Adequacy Ratio (Notice 1, 2)	International: Over 8% Domestic: Over 4%	Solvency Margin Ratio (Notice 3)	Over 400%	Rating	Equivalent of A rating or higher	<p>Clearing Qualification shall apply.</p> <p>-Ratings shall be those concerning the ability to discharge long-term debt as assigned by any of the following: Rating & Investment Information, Inc., Japan Credit Rating Agency, Ltd., Moody's Investors Service Inc., Standard & Poor's Ratings Services, or Fitch Ratings.</p> <p>-Net Capital Regulation Ratio, Capital Adequacy Ratio, and Solvency Margin Ratio shall be the same as in the existing JSCC clearing system.</p> <p>-The guarantee provided by an affiliate company is required to cover all of the participant's obligation related to CDS participant qualification to JSCC and a credit line may not be set to such guarantee.</p> <p>-In the calculation of a net assets criteria for an affiliate company which provides guarantee to a participant, the following formula is applied; $\text{Net assets criteria} * \text{the Number of guaranteeing entity(ies)} = \text{Net assets criteria for an affiliate company}$ (Note) If the guaranteeing affiliate is a participant, the guaranteeing participant is included in </p>
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(3) Obligation of CDS Clearing Participants	<p>(Note 1) Applies to Registered Financial Institutions which are not insurance companies. (Note 2) International criteria apply to financial institutions with business locations overseas. Domestic criteria apply to financial institutions with no business locations overseas. (Note 3) Applies to insurance companies.</p> <p>3) An applicant company which has an appropriate management and business-execution structure. One condition of the business-execution structure is to be able to participate in the procedures for the settlement of a defaulting clearing participant's portfolio. In order to support this, a participant or a company group which includes the participant should retain its CDS portfolio to be no less than JPY 500 billion. In cases where the amount of CDS portfolio is calculated by the company group basis, the criteria (JPY 500 billion) is multiplied by the number of clearing participant(s) within the company group.</p> <p>* Above criteria are illustrated based on discussions in the "Working Group on Clearing Operations for OTC Derivatives Trades." Specific criteria will continue to be discussed, taking into account that such criteria allow use by a wide range of market participants, with consideration to not impairing the soundness of participants in terms of risk management.</p> <p>- Conditions for maintaining CDS clearing qualifications shall be the same as the above; provided, however, that cases where the participant's rating is not the equivalent of A-rating or higher are handled by rating according to the items below.</p> <p>(i) A- rating*: Initial Margin+10% (ii) BBB+ rating*: Initial Margin+100% (iii) BBB rating*: Initial Margin+150% (iv) Less than BBB rating*: Loss of Clearing Qualification (Initial Margin+150% shall be applied until loss of qualification)</p> <p>(*) Such rating or its equivalent.</p> <p>- CDS Clearing Participants shall be required to undertake similar obligations with current clearing participants, such as obligations to make notifications or reports.</p>	<p>counting the number of the guaranteeing entity(ies).</p> <p>- It shall be permitted that an applicant can conclude an agreement with another body such as an affiliate company overseas, etc. which possesses trading functions for constituting an appropriate business-execution structure for participating in the participant default management process.</p> <p>-To be judged by the best rating.</p>

Item	Details	Remarks
(4) Waiver of Clearing Qualification	<ul style="list-style-type: none"> - In the case of a clearing participant's default, the other clearing participants are required to participate in the procedures for the settlement of the defaulting clearing participant's portfolio, such as neutralization of the risk of the portfolio, implementation of auctions, or taking-up of transferred positions when auction contracts are not formed. (i) Provision of resources to JSCC needed for the procedures such trading to neutralize the portfolio risk, implementation of auction trading concerning a portfolio. (ii) Bid in auctions for portfolios of a defaulting clearing participant. (iii) Taking-up of relevant portfolios at prices set by JSCC when auctions are not conducted. <ul style="list-style-type: none"> - In cases where a clearing participant waives its clearing qualification, it shall receive approval from the JSCC beforehand. - When waiving clearing qualification, unsettled contracts shall be liquidated. - In cases where unsettled contracts could not be liquidated within a certain period, positions including customers' positions not transferred to other clearing participants shall be processed via an auction (when the auctions is not conducted, those positions shall be allotted to other JSCC participants on a mandatory basis). 	<ul style="list-style-type: none"> -The system shall be the same as the current JSCC clearing system.
(5) Measures, etc. for Clearing Participants	<ul style="list-style-type: none"> -The JSCC shall be able to take the following measures against clearing participants. (i) Suspension of debt assumption, cancellation of clearing qualification due to a violation of regulations, etc. (ii) Report of holding excessive positions, increase of margin requirements, direction to improve positions (iii) Regulatory measures related to collateral (Deposit restrictions, etc. when using specific issues intensively as securities in lieu of cash, etc.) (iv) Request for documents, inspection, etc. when deemed necessary for clearing 	<ul style="list-style-type: none"> -The system shall be the same as the current JSCC clearing system. -In cases where the measures in (i) are applied, other clearing participants will be notified or a public announcement will be made.

Item	Details	Remarks
<p>3. Assumption of Obligation</p> <p>(1) Requirements of obligation assumption</p> <p>(2) Point when an obligation is assumed</p>	<p>operations.</p> <p>- When all of the following requirements are met, assumption of obligation will be conducted.</p> <p>1) Trades meet the requirements of clearing eligibility.</p> <p>2) 2 days or more have passed since the trading date (T+2).</p> <p>-Obligations shall be assumed at the point when JSCC confirms trades meet the requirements shown in the above (1) based on information received from TIW.</p> <p>-Confirmation of the eligibility of a trade and the resulting obligation assumption shall be conducted at 4:00PM.</p>	<p>-Up-front payment is out of the scope of JSCC's obligation assumption.</p> <p>-Advanced obligation assumption will be considered in the future.</p> <p>-Until JSCC confirms and assumes obligation, the trade will remain between the two parties.</p> <p>-Trades whose obligation assumptions cannot be confirmed by 4:00PM shall be handled on the following business day.</p>
<p>4. Margins</p> <p>(1) Initial Margin</p>	<p>- To manage risks associated with positions held by clearing participants, those participants shall deposit margin.</p> <p>- The required margin shall be a combination of required initial margin and required variation margin; provided, however, that in cases where such amount is a negative value, the required amount shall be zero.</p> <p>- Clearing participants shall deposit combined margins calculated by the following formula.</p> <p>Required margin amount based on its propriety position + Required margin amount based on its customers' positions</p>	<p>-Calculation and notification relating to margin shall be conducted by JSCC.</p>

Item	Details	Remarks
<p>1) Basic Policy</p> <p>2) Specific Calculation method</p> <p>(2) Variation Margin</p> <p>1) Basic Policy</p>	<ul style="list-style-type: none"> - Initial margin shall be deposited according to the amount of loss estimated from the change in price (spread), etc. while processing of positions is completed for a defaulting clearing participant. - Additionally, in order to cover the risk in cases where a credit event occurs at a reference entity, a fixed amount shall be added to the selling of protection (“short charge”). - The daily change in net present value (hereinafter referred to as “NPV”) shall be calculated for a day’s CDS positions using the daily change in price (spread), etc. for a fixed prior period, for risk according to price changes. The amount of required initial margin shall be the amount to cover the fixed criteria for such period and the amount with consideration to the period required to process the participant’s positions. - The short charge shall be the amount obtained by multiplying A) the superior oversold amount of reference entity positions by estimated capital base of the clearing participant’s positions by B) a fixed percentage (a fixed recovery rate subtracted from 100%). - Calculation of NPV shall be conducted for each clearing participant’s positions, and such 	<ul style="list-style-type: none"> -Daily price change uses that which was used in the calculation of variation margin. -Other parameters (observation period, cover ratio (credit criteria), period required for position processing, etc.) used in calculation will be decided in the future through simulations based on the special characteristics of OTC trading. Among these parameters, the cover ratio related to changes in NPV shall be at a level taking the fat-tail into account. The period required for a defaulting participant's position processing shall be longer than that of listed derivatives. -In a case at foreign clearing house, the short charge shall be that which is multiplied by 100% (0% recovery rate) for the largest two issues of the oversold amount related to the largest reference entity, and 60% (40% recovery rate) for those related to the second largest reference entity.

Item	Details	Remarks
2) Specific Calculation Method	<p>NPV shall be added to the required margin as variation margin.</p> <ul style="list-style-type: none"> - Calculation of NPV will be conducted using a settlement price, etc. prescribed by JSCC. - In cases where NPV is a negative value, the absolute value of such negative value shall be added to the required margin as variation margin. In cases where such value is positive, such value shall be subtracted from the required margin as negative variation margin. 	
3) Settlement Price	<ul style="list-style-type: none"> - Clearing participants shall report daily quote prices relevant to contracts they hold to the JSCC as base data for price (settlement price) calculation in order to calculate NPV. - Additionally, clearing participants designated by JSCC based on their applications shall report to the JSCC on quote prices for all contracts eligible for JSCC clearing. - JSCC shall set forth the price (settlement price) used in NPV calculation based on quote prices received from participants. 	<ul style="list-style-type: none"> -Reporting methods, etc. will be discussed separately. -It shall be allowed for a clearing participant to conclude an agreement with another body such as an affiliate company overseas, etc. which possesses trading functions for submitting daily quote prices. -Designated clearing participants shall receive clearing fee incentives. -In setting the price, certain processes for removing abnormal prices and ensuring proper level, such as taking the average by removing a fixed quantity of higher/lower quote prices, etc will be applied.
(3) Deposit Cut-off Time for Margin	<ul style="list-style-type: none"> - In cases where margin is found to be insufficient, a deposit shall be made by noon of the day following the occurrence of the insufficiency. 	<ul style="list-style-type: none"> -It is the same as the current trading margin.
(4) Securities, in lieu of cash, etc.	<ul style="list-style-type: none"> - Securities in lieu of cash can be deposited as initial margins and variation margins, in addition to cash such as JPY. Those securities include government bonds, US Treasuries and stocks. 	<ul style="list-style-type: none"> -Weights shall be established based on price changes for substitute securities.

Item	Details	Remarks
(5) Interest on Margin	- No interest shall be paid on margin deposited in JPY.	
5. Brokerage for Clearing of Securities	- A scheme of the brokerage for clearing of securities shall be implemented for transactions by customers of clearing participants so that such transactions can be cleared by JSCC.	- Transactions managed through accounts opened overseas shall be cleared as customers' transactions through the brokerage for clearing of securities. - No specific qualification shall be set for the brokerage for clearing of securities.
(1) Processing related to Brokerage for Clearing of Securities, etc.	<p>- In cases where clearing participants are entrusted with the brokerage for clearing of securities they shall conclude a clearing entrustment agreement stipulated by JSCC with the customer who is an entruster, beforehand.</p> <p>- For customers' trades, JSCC shall open each customer's account based on clearing participant's application.</p> <p>- Transactions executed by customers who entrust the brokerage for clearing of securities with a clearing participant shall, when they meet all requirements of obligation assumption, be assumed an obligation for them by JSCC with the entrustor-entrustee relation concurrently coming into effect. At the same time such transactions executed by customers shall be eliminated pursuant to JSCC's Business Rules and the clearing entrustment agreement.</p>	<p>- A clearing entrustment agreement form shall be stipulated by JSCC.</p> <p>- Clearing participants shall report information regarding those accounts beforehand.</p> <p>- In case an obligation for transactions executed by customers is not assumed by JSCC, the original transaction executed by customers shall remain effective except a special treatment made between a clearing participant and customers.</p> <p>- Clearing participants shall act as a counterparty to JSCC's assumption of obligation regarding transactions for which they are entrusted with the</p>

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(2) Separate management of customers' position	-Regarding transactions by clearing participants, JSCC shall separately manage positions for customers' transactions conducted through the brokerage for clearing of securities (customers' transactions) and clearing participant's proprietary transactions (participant's transactions).	brokerage for clearing of securities and conduct relevant settlement process
(3) Deposit and separate management of customers' margin	<p>-Customers shall deposit margin to clearing participant with which they concludes a clearing entrustment agreement. The Clearing participant shall deposit all of such margin to JSCC on behalf of such customers.</p> <p>-The required amount of margin to be deposited by customers shall be equal to or greater than the amount calculated and prescribed by JSCC based on the net position of such customers.</p> <p>-JSCC shall separately manage the margin related to customers' transactions and the margin related to proprietary transactions by clearing participants.</p>	-The method of deposit shall be the same as the current deposit method of listed derivatives.
6. Fixed-interest payment (transfer of premium)	<p>- Calculation of fixed interest amounts shall be as follows: Notional principal amount * Fixed interest * Fixed interest day-count formula</p>	-Calculations of fixed interest rate using the formula on the left shall be conducted based on the business day and business day adjustment method and the calculation formula appropriate for such CDS trade.
7. Method of Settlement (1) Settlement Method (2) Netting	<p>- Transfer of settlement payments (fixed payment, variation payment, etc.) in JPY between participants and JSCC shall be conducted through Bank of Japan Net account transfers.</p> <p>- Clearing participants shall transfer/receive amounts netted for settlement payments for</p>	-Use of BOJ-Net requires the approval of the Bank of Japan.

Item	Details	Remarks
8. Deposit and Return of Collateral	daily CDS trades to JSCC.	
(1) Collateral in Cash	- Deposit and return of initial and intraday margin shall be conducted through transfers between the participant's account in Japan and an account the JSCC opened at a commercial bank.	
(2) Securities in lieu of cash	<ul style="list-style-type: none"> - For stocks, etc., transfer shall be conducted through JASDEC between the participant's account and JSCC's account. - For Japanese government bonds, transfer shall be conducted through the Bank of Japan's JGB book-entry settlement system between the participant's account and JSCC's account. - For US Treasury, transfer shall be made through Fed-wire between the participant's account and JSCC's account opened at each party's respective local depository. 	
9. Clearing Funds		
(1) Purpose of Clearing Funds	- For credit default swaps, clearing participants shall be required to make a deposit of clearing funds in order to provide a guarantee against risk that is not covered by the clearing participant's deposited margin.	
(2) Required Amount of Clearing Funds	<ul style="list-style-type: none"> - The required amount of clearing funds shall be an amount able to cover the following: <ul style="list-style-type: none"> (1) Loss occurring in cases where a clearing participant defaults without having paid margin (2) Loss resulting from the insufficient deposit of margin, etc. where multiple clearing participants default due to extreme, but possible market conditions (stress conditions) - It shall be the following amounts, whichever the larger (when such amount is less than the minimum required amount, it shall be the minimum required amount): <ul style="list-style-type: none"> (1) The total amount required to cover the given rate of daily increase in margin of a past given period 	<ul style="list-style-type: none"> - Calculation and notice related to clearing funds shall be conducted by JSCC. - The minimum required amount shall be decided based on estimated market scale, etc. Estimated minimum required amount will be approximately JPY 500 million.

Item	Details	Remarks
	<p>(2)The amount of the total loss estimated from the default of multiple clearing participants in the stress conditions proportional to the risk related to the positions held by each clearing participant</p> <p>- As a general rule, the required amount of clearing funds shall be calculated once a month.</p> <p>(3) Securities in lieu of cash</p> <p>- For clearing funds, in addition to JPY, the deposit of securities in lieu of cash is also possible. Securities deposited in lieu of cash shall be government bonds, US Treasury, stocks, etc.</p> <p>-JSCC shall be permitted to temporarily use cash and securities in lieu of cash deposited as clearing funds for compensating obligation of the defaulting clearing participant in case of a clearing participant defaults.</p> <p>(4) Interest on Clearing Funds</p> <p>- Clearing funds deposited in JPY shall not accrue interest.</p>	<p>-The amount for currently listed derivatives shall cover 95% of the past 3 months.</p> <p>-The amount of loss when clearing participants default during the stress conditions can be, for instance, estimated as an amount equal to the loss in a case where the two participants with the largest risk related to their positions defaulted at the same time, during a period where the market experienced the largest fluctuations in the past.</p> <p>-The proportion of the estimated loss can be determined according to each clearing participants' required margin.</p> <p>-Assessment rates shall be set for securities in lieu of cash based on price fluctuations.</p> <p>-The method of depositing and withdrawing the securities in lieu of cash of the clearing funds shall be the same as that of initial margin, etc.</p> <p>-Margin shall be the same as well.</p>
10.	Framework of	- In order to avoid systemic risk caused by JSCC's default, JSCC losses caused by a clearing

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Settlement Guarantee Scheme	<p>participant default will be compensated in the following order.</p> <p>(1)Margin/clearing funds of the defaulting clearing participant</p> <p>(2)Compensation by JSCC</p> <p>(3)Clearing funds of clearing participants other than the defaulting clearing participant (limited to clearing funds related to CDS trading)</p> <p>(4)Mutual guarantee of clearing participants</p> <p>- JSCC shall use an amount equal to the profit related to OTC derivatives clearing operations as compensation by JSCC to compensate for loss caused by the default of an OTC derivatives clearing participant.</p>	<p>-The clearing funds of clearing participants other than the defaulting clearing participant shall be comprised of amounts proportional to each clearing participant's required clearing fund amount (the maximum shall be each clearing participant's required clearing fund amount)</p> <p>-In commencement of CDS Clearing, JSCC shall obtain certain funds for loss compensation. Although the exact amount shall be decided later based on the scale of JSCC's clearing business, etc., the estimated amount will be JPY 4 billion.</p>
<p>11. Scheme for processing during default</p> <p>(1) Processing of Portfolio</p> <p>(2) Clearing Participants which cooperate in</p>	<p>- In cases where a clearing participant defaults, JSCC shall process the defaulting clearing participant's portfolio as below.</p> <p>(1)Gather clearing participants which will cooperate in processing the default</p> <p>(2)Conduct risk hedging for the defaulting clearing participant's portfolio</p> <p>(3)Conduct auction of the defaulting clearing participant's portfolio</p> <p>(4)Enforced allocation of portfolio (when auction is deemed invalid)</p> <p>- In cases where a clearing participant defaults, JSCC shall promptly select clearing participants to cooperate in processing the default (hereinafter known as "cooperative</p>	<p>- Similar framework as LCH and ICE Trust is expected.</p>

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processing the default	<p>participants”).</p> <ul style="list-style-type: none"> - Multiple companies shall be chosen as cooperative participants for each fixed period. However, in preparation for the default of a cooperative participant, reserve cooperative participants shall be chosen. - Cooperative participants shall supply the required personnel to conduct the risk-hedging and auction of the defaulting participant’s portfolio. Dispatched personnel shall conduct activities deemed required by JSCC, such as counsel. - Personnel dispatched by cooperative participants must maintain confidentiality regarding processing of the default. 	<ul style="list-style-type: none"> -Cooperative participants shall be chosen every 6 months. -Cooperative participants shall be selected separately for IRS trading and CDS trading. -Supplied personnel shall be set to 1 person per company.
(3) Portfolio Risk-hedging	<ul style="list-style-type: none"> - In cases of default of a clearing participant, JSCC shall promptly grasp the details of such participant’s portfolio and conduct the required risk hedging. 	<ul style="list-style-type: none"> -JSCC shall make judgments and conduct risk-hedging based on the counsel, etc. of the personnel dispatched by the cooperative participants.
(4) Portfolio Auction	<ul style="list-style-type: none"> - JSCC shall conduct an auction for the risk-hedged portfolio, and the clearing participant with the winning bid shall accept such portfolio (including the hedge transactions). - In cases where there is no bid equal to or greater than the minimum bid predetermined by JSCC, such auction shall be deemed invalid. - Clearing participants must not leak information related to the auction, such as details regarding the portfolio up for auction. 	<ul style="list-style-type: none"> -Customers’ position which was not been transferred shall be also processed via auction -The minimum bid will be determined with cooperation from the cooperative participants, and will not be publicized.
(5) Acceptance of	<ul style="list-style-type: none"> - Portfolios which were unable to be auctioned shall be accepted by clearing participants, 	

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Portfolio when Auction is deemed invalid	according to their usage situation, etc., at a price determined by JSCC.	
(6) Transfer of Customers' position	<ul style="list-style-type: none"> - Customers of the defaulting participant shall be able to transfer the positions they hold to another clearing participant. - Customers who request to transfer their positions shall apply to other clearing participants and obtain such participant's consent. - The receiving clearing participant shall submit an application for position transfer in written format to JSCC. - In case an application for position transfer was not submitted to JSCC within a period determined by JSCC, customer's position and clearing participant's positions shall collectively be processed via auction procedure or mandatory allocation 	
(7) Management of customers' margin	<ul style="list-style-type: none"> - Margin of customers whose positions have been transferred to another clearing participant shall be deemed to be deposited to JSCC by such clearing participant on behalf of such customer. - A customer who did not transfer its position to another clearing participant shall directly request JSCC to return its margin. 	<ul style="list-style-type: none"> -Such margin shall remain deposited to JSCC and the deposit/withdrawal shall be made through the transferred clearing participant. -In cases where a customer has an unsettled obligation to the defaulting Clearing participant related to the brokerage for clearing of securities, such customer's margin shall be returned after compensating such obligation.
12. Variation Payment (Credit Event Settlement)	- Credit Event (CE) settlement shall be conducted based on the framework of the ISDA Credit Derivatives Determinations Committee (hereinafter referred to as "DC").	-As the processing will be based on JSCC's Business Rules, the ratification state of each ISDA protocol by each clearing participant will not be considered.
(1) Acknowledgement of CE	- As a general rule, JSCC shall acknowledge a CE based on the CE acknowledgement of the DC.	-In cases where JSCC acknowledges a CE, it shall notify participants regarding such fact and

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	<p>- In preparation for the case that DC does not make any decision, JSCC shall set up a decision-making committee in which a wide range of clearing participants participate.</p> <p>1) Bankruptcy, Failure to Pay</p> <p>- Out of CE, CDS transactions relating to the reference entity acknowledged for bankruptcy and failure to pay shall be settled by conducting CE settlement.</p> <p>2) Restructuring</p> <p>-Regarding CE, clearing participants wishing CE settlement shall report to JSCC on CDS transactions relating to a reference entity acknowledged as restructuring during the period set by JSCC.</p>	<p>procedures.</p> <p>-JSCC shall conduct discussions with ISDA regarding its participation in DC under observer status.</p> <p>-Establishment of a determination committee inside JSCC shall be discussed with relevant parties taking into account revisions on CPSS-IOSCO recommendations.</p> <p>-When a constituent of an Index CDS eligible for clearing experiences a CE, the Index CDS, excluding the reference entity which was determined as CE, and single name CDS relating to the reference entity experiencing CE shall remain eligible for clearing.</p> <p>-JSCC and clearing participants shall not send CE notice.</p> <p>-Credit Event notice relating to customers' transactions shall be sent to JSCC by each clearing participant based on its customer's request.</p> <p>-CDS transaction for which CE notice is not sent to JSCC shall remain eligible for clearing as ordinary transactions.</p> <p>-When a clearing participant sends CE notice, the notice shall be sent on an original trade basis. (It is not permitted to partially send CE notice).</p> <p>-Trades eligible for clearing are only</p>

Item	Details	Remarks
<p>(2) Method of CE Settlement</p>	<p>-When JSCC receives a CE notice relating to restructuring, JSCC shall send that CE notice to other party relating to that CE notice.</p> <p>-JSCC shall conduct CE settlement between participants which send CE notice to JSCC and participants which receive CE notice from JSCC.</p> <p>- As a general rule, the price according to the auction held based on the DC's decision shall be used as the final price, and cash settlement shall be conducted.</p> <p>- CE settlement shall be conducted on the day set by CE settlement auction set forth by DC (in cases where the day is not set through CE settlement auction, CE settlement shall be conducted on the fifth day following the day when the final price is determined in an auction).</p> <p>- Transfer of cash related to CE settlement (variation payment) shall be conducted through</p>	<p>old-restructuring transactions. (No MR or MMR provision shall be eligible).</p> <p>-For Credit Event settlement relating to customers' trades, CE settlement between JSCC and clearing participants shall be conducted by clearing participants. Customers shall conduct the same settlement with the clearing participant.</p> <p>-It is assumed that the ISDA's permission may be received regarding the use of the ISDA's auction price.</p> <p>-Clearing participants shall not be prevented from participating in the ISDA auction, even in cases of transactions for which JSCC has assumed obligations. Due to this, it is possible for participants which wish to conduct physical settlement to use such auction to do so according to the procedures of such auction.</p>

Item	Details	Remarks
(3) Addition of Margin during CE	<p>BOJ-Net account transfers.</p> <ul style="list-style-type: none"> - However, in cases where the above auction is deemed invalid, or the DC decides not to hold such auction, physical settlement shall be conducted as specified by JSCC in the "Annex 1". <ul style="list-style-type: none"> - In CE determination, sellers of single name CDS transactions (separated from Index CDS) shall add the notional principal amount of selling positions multiplied by a given ratio as their margin relating to reference entity acknowledged CE. - Regardless of restructuring if a CE notice was not conducted for single name CDS transactions (separated from Index CDS) the margin of sellers shall be also treated in the same way as above. - When a CE occurs, the seller of protection related to such reference entity shall deposit an additional margin to the initial margin. Such additional margin is calculated by the following formula: - Additional Margin = the notional principal amount related to sell-positions * a given ratio 	<ul style="list-style-type: none"> -The given ratio applied to calculate the additional margin shall be decided later, based on the estimated recovery rate, etc. -Specific rules for margin for buyers shall be decided later after deliberations.
(4) Handling of fixed interest during CE	<ul style="list-style-type: none"> - Fixed interest during a CE shall be an amount calculated with consideration of both ends of the period from the final day of the immediately preceding calculation period until the occurrence of the CE. - Fixed interest payments shall be made on the day of CE settlement. 	
13. Novation	<ul style="list-style-type: none"> - Clearing participants which wish to conduct novation shall make such declaration to JSCC. 	<ul style="list-style-type: none"> -Novation shall be conducted only if the transferring party, the receiving party, and the opposing party to the original transaction agree. -Clearing participants shall file novation agreements relating to customers' transactions with the JSCC based on customers' intent.

Item	Details	Remarks
14. Early Termination (Termination before the Deadline)	<ul style="list-style-type: none"> - In cases where novation is conducted, such positions shall be transferred from the transferring party to the receiving party at the price agreed upon by both parties (present value). In the transfer from the transferring party to the receiving party, JSCC still remains as the counterparty to both the transferring party and the receiving party. - Clearing participants which wish to conduct early termination shall make such declaration to JSCC. - In cases where early termination is conducted, clearing shall be conducted at the price agreed upon by both parties (present value), and cash shall be transferred between them as a fee for termination before the deadline. 	<ul style="list-style-type: none"> -Early termination shall be conducted in cases where the opposing party to the original transaction (in cases where such opposing party has conducted novation, the entity which has become such party due to novation) agrees. -Clearing participants shall file for early termination relating to customers' trades to JSCC based on customers' intent.
15. Clearing Fee, etc. (1) Basic Concept	<ul style="list-style-type: none"> - In setting the clearing fee for CDS, the following points of view will be comprehensively examined. 1) The clearing fee is based on each clearing participant's benefit from using JSCC (each participant's clearing amount). 2) Each clearing participant bears JSCC's operational costs which accrue regardless of each participant's amount of obligation. 3) The level of the clearing fee shall be set to compensate JSCC's system development costs and operational costs for CDS clearing. 	

Item	Details	Remarks
(2) Fee Structure 1) Clearing Fee 2) Other Fees	4) With consideration of the competitiveness of the domestic market, the level of the clearing fee shall be conducive to the growth of the domestic CDS market. - Clearing fee is calculated by the following formula; Clearing fee = Amount of obligation assumption by JSCC * the rate set by JSCC - The monthly maximum and minimum fee will be introduced. - The introduction of fees other than the clearing fee is as provided in "Annex 2".	- The rate is as provided in "Annex 2."

Physical Settlement Scheme

Items	Details	Remarks
1 .Basic concept and scheme	<p>- In cases where an ISDA auction is deemed invalid (the auction is cancelled) or where the DC decides not to hold such auction, and the final price is unable to be used in the ISDA auction, JSCC shall conduct physical settlement by the following schemes;</p> <p>1) A clearing participant who is a protection buyer after netting shall submit a notice of physical settlement to JSCC.</p> <p>2) JSCC shall allocate such physical settlement positions among participants who are protection sellers after netting.</p> <p>3) After JSCC allocates physical settlement positions among such participants, buyers and sellers shall bilaterally undertake the delivery obligation.</p> <p>4) JSCC shall receive money equivalent to the notional principal amount from the seller in advance and shall pay it to the buyer after receiving notice of fulfillment of the delivery obligation from the buyer and the seller.</p>	<p>- In cases where final price is not determined in ISDA auction within certain period set by ISDA such auction shall be cancelled.</p> <p>- Notice of physical settlement shall be submitted to JSCC within 30 days after the ISDA auction is cancelled or the DC's decision not to hold such auction is released.</p> <p>- In cases where a clearing participant does not submit a notice of physical settlement, the relevant CDS shall be invalid.</p> <p>- JSCC shall guarantee the settlement execution for physical settlement.</p> <p>- Buyers and sellers shall submit notice of such completion to JSCC when they fulfill the delivery obligation.</p> <p>- In cases where there is any conflict between buyers and sellers with regard to the propriety of the delivery obligation or delivery procedures, etc., buyers and sellers shall be subject to JSCC's determination.</p>

Items	Details	Remarks
2. In cases where buyers do not fulfill delivery obligation	<p>- In cases where the delivery obligation is not fulfilled by the 30th business day (physical settlement day) after notice of physical settlement, in accordance with types of delivery obligation written in the notice of physical settlement, the following schemes shall be available ;</p> <p>1) In cases where the delivery obligation written in the notice of physical settlement is a bond.</p> <p>- Sellers shall conduct purchasing of bond (buy-in) (option eligible for sellers)</p> <p>- While buyers shall not be able to fulfill the delivery obligation within the buy-in period, in cases where buy-in period ends, they shall be able to fulfill the delivery obligation again for 5 business days.</p> <p>- The above processing shall be conducted reciprocally.</p> <p>2) In cases where the delivery obligation written in notice of physical</p>	<p>- In cases where the delivery obligation is completed, the buyer and seller shall notify JSCC of such completion.</p> <p>- In cases where such notice is submitted, JSCC shall conduct the procedure in the above 1.4).</p> <p>- In cases where the delivery obligation is not fulfilled within 60 business days after physical settlement day, the CDS shall be deemed invalid.</p> <p>- In cases where buyers default before fulfilling the delivery obligation, while such position will be liquidated through portfolio settlement processing for the defaulting clearing participant, if the CDS will be deemed invalid during such settlement processing, cash settlement will be available at a final price determined by JSCC.</p> <p>-Seller shall send notice of buy-in to buyers by the date 2 business days prior to the buy-in period (within 5 business days after the date designated by sellers that is 5 business days after the physical settlement day)</p> <p>-Amount of settlement cash buyers receive from JSCC shall be an amount equal to the purchasing price of the bond, JSCC's fees, etc. subtracted from the notional principal amount.</p>

Items	Details	Remarks
	<p>settlement is a loan:</p> <ul style="list-style-type: none"> - An alternative bond or loan shall be delivered via specific processing (option eligible for buyers) on or following the date 5 business days after the date of cash settlement (start day of alternate processing). - In cases where there are still any part of the delivery obligation unfulfilled after 15 business days counting from the start day of alternate processing, sellers shall be able to designate obligation holders and require buyers to receive the obligation from such holders and deliver to them (option eligible for sellers). 	

Clearing Fee Schedule for CDS Trades

Item	Fee	Remarks
1. Clearing Fee	<ul style="list-style-type: none"> • The clearing fee is charged at JPY 800 per JPY 100 million of notional principal for an index CDS transaction. The maximum monthly clearing fee for each participant will be JPY 40 million. The minimum monthly clearing fee for each participant will be JPY 100,000. 	<ul style="list-style-type: none"> • The clearing fee is set with reference to that of overseas CCPs while taking into account the scale of the Japanese CDS market. • The discount clearing fee (JPY 700 per JPY 100 million of notional principal for an index CDS transaction) will be applied to clearing participants who report to the JSCC on quote prices for all eligible contracts. • Clearing fee for back-loading (assumption of obligation for transactions executed before the start of JSCC clearing operations) is JPY 400 per JPY 100 million of notional principal for an index CDS transaction.
2. Other Fees	<ul style="list-style-type: none"> • Clearing membership application fee: JPY 1 million for acquiring a CDS clearing participant qualification • Novation fee: JPY 500 per novation • Early-termination fee: JPY 500 per early-termination • Credit event settlement processing fee: JPY 500 per transaction eligible for credit event settlement 	<ul style="list-style-type: none"> • For those who apply for JSCC CDS clearing participant qualification by the point 6 months after the commencement of JSCC CDS clearing operations, the clearing qualification obtaining application fee shall be waived

* Please note that the above fees may be adjusted before the commencement of CDS clearing operations in response to future market trends, etc.