

Handling of Rules on Margins, etc.



Japan Securities Clearing Corporation

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Handling of Rules on Margins, etc.

(In effect as of July 26, 2010)

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(Article 1 Purpose)

These Rules set forth necessary matters relating to the matters prescribed by JSCC pursuant to the Rules on Margins, etc. (hereinafter referred to as the “Rules on Margins”).

(Article 2 Clearing Price Relating to Option Contracts)

The Clearing Price prescribed in Article 7 of the Rules on Margins shall be the amount calculated as the theoretical price pursuant to the method set forth in the *Appendix, “Table Concerning Calculation of Theoretical Prices for Option Contracts”*; provided, however, that in the case where JSCC deems it inappropriate as the Clearing Price, such amount shall be prescribed by JSCC on a case-by-case basis.

(Article 3 Conditions under Which Intra-Day Contract Margin Is Deposited)

1 The thresholds prescribed by JSCC pursuant to the provisions of Paragraph 1 of Article 21 of the Rules on Margins, etc. shall be as follows:

(1) With respect to the contract month contracts which are selected by JSCC from the JGB Futures Contracts, in the case where the difference between the contract price at the end of the Morning Session on any Trading Day and the Clearing Price on the immediately preceding Trading Day exceeds the amount previously prescribed by JSCC; or

(2) With respect to the contract month contracts which are selected by JSCC from the Index Futures Contracts, in the case where the difference between the contract price index at the end of the Morning Session on any Trading Day and the Clearing Price Index on the immediately preceding Trading Day exceeds the amount previously prescribed by JSCC.

2 The provisions of Paragraph 1 of Article 20-5 of the Handling of Business Rules shall apply *mutatis mutandis* to the contract price at the end of the Morning Session referenced in Item (1) of the preceding Paragraph. In such event, the phrase, “in the session of the Trading Day,” in Item (1) of Paragraph 1 of Article 20-5 of the Handling of Business Rules shall be deemed to be “in the Morning Session of the Trading Day”.

3 The provisions of Paragraph 1 and Paragraph 2*¹ of Article 20-8 of the Handling of Business Rules shall apply *mutatis mutandis* to the contract price index at the end of the Morning Session referenced in Item (2) of Paragraph 1 of this Article. In such event, the phrase, “in the session of the Trading Day,” in Paragraph 1 of Article 20-8 of the Handling of Business Rules shall be deemed to be “in the Morning Session of the Trading Day”; the phrase, “on the day on which the Trading Day ends,” in the same Paragraph shall be deemed to be “in the Morning Session of the day on which the Trading Day ends”; the term, “Afternoon Session,” in Item (1) of Paragraph 2 of the same Article shall be deemed to be “Morning Session”; the term, “Afternoon Session,” in Item (2) of the same Paragraph shall be deemed to be “Morning Session”; and the phrase, “on the day on which the Trading Day

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ends,” in *Appendix 2* of the Handling of Business Rules shall be deemed to be “in the Morning Session of the day on which the Trading Day ends.”

(*1 excluding Item (3))

(Article 4 *Mutatis Mutandis* Application of Provisions Relating to Intra-Day Clearing Price and Intra-Day Clearing Price Index)

1 The provisions of Article 20-5 of the Handling of Business Rules shall apply *mutatis mutandis* when the Intra-Day Clearing Price for the JGB Futures Contracts is prescribed pursuant to the provisions of Paragraph 1 of Article 23 of the Rules on Margins, etc. In such event, the phrase, “in the session of the Trading Day,” in Item (1) of Paragraph 1 of Article 20-5 of the Handling of Business Rules shall be deemed to be “in the Morning Session of the Trading Day”; and the term, “clearing price,” in Item (2) of the same Paragraph shall be deemed to be “Intra-Day Clearing Price”; provided, however, that with respect to the Mini-sized Contract*¹, on the day*² immediately following the day on which the Last Trading Day of each contract month contract ends*³, the Final Settlement Price*⁴ of the contract month contract of the relevant Mini-sized Contract shall be the Intra-Day Clearing Price.

(*1 referring to the mini-sized contract relating to the JGB Futures Contracts prescribed by the Designated Market Operator)

(*2 if such day falls on a holiday, it shall be the immediately following business day; the same applies hereinafter)

(*3 in the case where the contract month contracts of the Large-sized Contracts*³⁻¹, which are used by the Designated Market Operator for determining the Final Settlement Price*³⁻² of the relevant contract month contracts, are suspended from the beginning of the Morning Session until the end of the Morning Session of such day for the reason that the relevant Designated Market Operator decides it inappropriate or difficult to cause the trades to continue, and where JSCC deems it necessary, from the day immediately following the day on which such Last Trading Day ends until the day prescribed by JSCC on a case-by-case basis)

(*3-1 referring to the large-sized contracts relating to the JGB Futures Contracts prescribed by the Designated Market Operator; the same applies hereinafter)

(*3-2 referring to the final settlement price prescribed by the Designated Market Operator; the same applies hereinafter)

(*4 in the case where the contract month contracts of the Large-sized Contracts, which are used by the Designated Market Operator for determining the Final Settlement Price of the relevant contract month contracts, are suspended from the beginning of the Morning Session until the end of the Morning Session on such day for the reason that the relevant Designated Market Operator decides it inappropriate or difficult to cause the trades to continue, and where JSCC deems it necessary, the price set by JSCC on a case-by-case basis)

2 The provisions of Article 20-8^{*1} of the Handling of Business Rules shall apply *mutatis mutandis* when the Intra-Day Clearing Price Index for the Index Futures Contracts is prescribed pursuant to the provisions of Paragraph 1 of Article 23 of the Rules on Margins, etc. In such event, the phrase, “in the session of the Trading Day,” in Item (1) of Paragraph 1 of Article 20-8 of the Handling of Business Rules, and main text of A) and B) of Item (2) of the same Paragraph shall be deemed to be “in the Morning Session on the Trading Day”; the phrase, “on the day on which the Trading Day ends,” in Item (1) of the same Paragraph shall be deemed to be “in the Morning Session of the day on which the Trading Day ends”; the term, “clearing price index,” in B) and C) of Item (1) of the same Paragraph shall be deemed to be “Intra-Day Clearing Price Index”; the term, “clearing price index of Central Contract Month Contract on the Trading Day” in B) (b) of Item (2) of the same Paragraph shall be deemed to be “Intra-Day Clearing Price Index of Central Contract Month Contract in the Morning Session on the Trading Day”; the term, “Afternoon Session,” in Item (1) of Paragraph 2 of the same Article shall be deemed to be “Morning Session”; the term, “Afternoon Session,” in Item (2) of the same Paragraph shall be deemed to be “Morning Session”; and the phrase, “on the day on which the Trading Day ends,” in *Appendix 2* to the Handling of Business Rules shall be deemed to be “in the Morning Session of the day on which the Trading Day ends”; provided, however, that the Intra-Day Clearing Price Index on the day immediately following the day on which the Last Trading Day of each contract month contract ends^{*2} shall be the closing price index at the end of the Morning Session on such day^{*3}.

(*1 excluding Item (3) of Paragraph 2)

(*2 in the case where buying/selling of securities is suspended from the beginning of the Morning Session until the end of the Morning Session on such day for the reason that the Designated Market Operator decides it inappropriate or difficult to cause the buying/selling to continue, and where JSCC deems it necessary, from the day immediately following the day on which such Last Trading Day ends until the day prescribed by JSCC on a case-by-case basis)

(*3 in the case where buying/selling of securities is suspended from the beginning of the Morning Session until the end of the Morning Session on such day for the reason that the Designated Market Operator decides it inappropriate or difficult to cause the buying/selling to continue, and where JSCC deems it necessary, the clearing price index on the Last Trading Day of each contract month contract)

3 The provisions of Article 2 shall apply *mutatis mutandis* when the Intra-Day Clearing Price relating to the Option Contracts is prescribed pursuant to the provisions of Article 23 of the Rules on Margins, etc. In such event, the phrase, “on the day,” in Paragraph 1 of the *Appendix* shall be deemed to be “in the Morning Session of the day”; the term, “clearing price,” in Paragraph 2 of the *Appendix* shall be deemed to be “Intra-Day Clearing Price”; and the term, “the applicable Trading Day,” in Paragraph 3 of the *Appendix* shall be deemed

to be “the applicable Trading Day*1.”

(*1 excluding the Afternoon Session)

(Article 5 Notification of the Amounts Required for the Margin for Customers’ Account and the Margin Pertaining to the Brokerage for Clearing of Securities, etc.)

The cutoff time prescribed by JSCC pursuant to the provisions of Article 25 of the Rules on Margins, etc. shall be 6:30 P.M. of the applicable day*1.

(Article 6 Adjustment of Fractional Amounts)

With respect to the securities referenced in Paragraph 2 of the *Appendix* to the Rules on Margins, etc., fractional amounts resulting from the multiplication of the market prices as of the day which is two days before the day of delivery or the day of deposit by the rate set forth in such Paragraph shall be adjusted as follows:

- (1) Any fractional amount less than one yen shall be rounded down in the case of stocks, preferred equity capital contribution securities, depositary receipts for foreign stocks, beneficiary securities of investment trusts, beneficiary securities of foreign investment trusts, investment securities, foreign investment securities, beneficiary securities of beneficiary securities issuing trust, and beneficiary securities of foreign beneficiary securities issuing trust.
- (2) In the case of securities other than the securities set forth in the preceding Item, any fractional amount less than 0.01 yen shall be rounded down.

(Article 7 Handling of Japanese Government Bonds)

When a Clearing Participant deposits the Japanese Government Bonds described in Paragraph 2 of the *Appendix* to the Rules on Margins, etc. with JSCC, the Clearing Participant shall make such deposit by way of a book-entry transfers to the account held in the name of JSCC at the Bank of Japan.

(Article 8 Handling of Stocks and the Like)

1 When a Clearing Participant deposits securities listed under the following Items with JSCC, the Clearing Participant shall make such deposit by way of book-entry transfers to the account held in the name of JSCC at the JASDEC.

- (1) Stocks, preferred equity capital contribution securities, depositary receipts for foreign stocks, beneficiary securities of investment trusts, beneficiary securities of foreign investment trusts, foreign investment securities, beneficiary securities of beneficiary securities issuing trusts, beneficiary securities of foreign beneficiary securities issuing trusts, bonds*1 and Convertible Bonds set forth in Paragraph 2 of the *Appendix* to the Rules on Margins, etc.

(*1 excluding Japanese Government Bonds and corporate bonds with stock acquisition

rights)

(2) Investment securities set forth in Paragraph 2 of the *Appendix* to the Rules on Margins, etc., which are listed on any of the domestic Financial Instruments Exchanges.

2 JSCC shall entrust the task of submitting to JASDEC reports concerning the deposited securities prescribed in the following Item to the Clearing Participant which has deposited such securities, and the Clearing Participant so entrusted with the task shall submit the relevant reports to JASDEC. In such event, the Clearing Participant so entrusted with the task may cause third parties to submit the relevant reports.

(1) Reports concerning the entrustment status of management for Special Shareholders in connection with stocks issued by domestic corporations;

(2) Reports concerning the entrustment status of management for Special Holders of Preferred Equity Capital Contribution Securities in connection with equity capital contribution securities;

(3) Reports concerning the entrustment status of management for Special Holders of Beneficiary Securities in connection with investment trust beneficiary securities;

(4) Reports concerning the entrustment status of management for Special Holders of Investment Securities in connection with investment securities; and

(5) Reports concerning the entrustment status of management for Special Holders of Beneficiary Securities in connection with beneficiary securities of beneficiary securities issuing trust.

(Article 9 Handling of U.S. Treasury Bonds/Notes/Bills)

1 Every time a Clearing Participant deposits the U.S. Treasury Bonds/Notes/Bills*¹ set forth in Paragraph 2 of the *Appendix* to the Rules on Margins, etc. with JSCC, it shall obtain the consent of JSCC.

(*¹ hereinafter referred to as the "U.S. Treasuries")

2 When a Clearing Participant deposits the U.S. Treasuries in accordance with the provisions of the preceding Paragraph, the Clearing Participant shall implement a book-entry transfer of the U.S. Treasuries to be deposited to the account held in the name of JSCC at a bank located in New York City, the State of New York, U.S.A., for the purpose of holding securities deposited in lieu of cash to serve as the Margin for the Futures and Option Contracts, no later than 2:00 P.M., U.S. Eastern Time, on the day immediately preceding the day of delivery, and shall provide JSCC with notice thereof by 4:00 P.M. on the day of such book-entry transfer. In such event, the book-entry transfer*¹ shall be implemented through the U.S. Federal Reserve Communications System.

(*¹ excluding book-entry transfers within the same bank)

3 When a Clearing Participant requests a return of the U.S. Treasuries which have been deposited as securities in lieu of cash to serve as the Margin, it shall notify JSCC thereof by noon of the day on which it intends to have them returned.

(Article 10 Exclusion from the Securities Deposited in Lieu of Cash)

1 Notwithstanding the provisions of Paragraph 1, in the event that any stock^{*1} that is listed on one or more domestic Financial Instruments Exchange(s) comes to meet, in all of such domestic Financial Instruments Exchanges where it is listed, any of the delisting criteria prescribed by such Financial Instruments Exchange(s)^{*2}, JSCC shall exclude such stock and the Corporate Bonds issued by the issuer of such stock^{*3} from the securities which may be deposited in lieu of cash as the Margin, Customer Margin or Brokerage Margin, commencing on the day immediately following the day on which such delisting criteria are met:

(*1 including preferred equity capital contribution securities, depositary receipts for foreign stocks, beneficiary securities of investment trusts, beneficiary securities of foreign investment trusts, investment securities, foreign investment securities, beneficiary securities of beneficiary securities issuing trust and beneficiary securities of foreign beneficiary securities issuing trust; the same applies hereinafter)

(*2 except in the events prescribed by the following Items)

(*3 excluding the relevant depositary receipts for foreign stocks, beneficiary securities of investment trusts, beneficiary securities of foreign investment trusts, beneficiary securities of beneficiary securities issuing trust and beneficiary securities of foreign beneficiary securities issuing trust)

(1) In the event where the issuer of the relevant stock becomes a wholly-owned subsidiary of another corporation whose stock is listed in a Designated Financial Instruments Market^{*1} through a share exchange or equity transfer;

(*1 hereinafter referred to as the "Listed Company")

(2) In the event where the issuer of the relevant stock merges with a Listed Company through an absorption-type merger; or

(3) In the event not described above, where the relevant stock is to be delisted and where the stock which is to be granted in exchange for such stock is expected to be listed immediately on a domestic Financial Instruments Exchange.

2 The provisions of the preceding Paragraph shall apply *mutatis mutandis* to the bonds which are deposited in lieu of cash as the Margin, Customer Margin or Brokerage Margin, where the obligations relating to the bonds of the issuer of such bonds become immediately due and payable.

Supplementary Provisions

- 1 These Rules shall come into effect on February 2, 2004.
- 2 The convertible bonds or the corporate bonds with stock acquisition rights for which the provisions then in force still remain applicable pursuant to the provisions of Paragraph 1 of Article 7 of the Supplementary Provisions of the Law Partially Amending the Commercial Code, Etc. (Law No. 128 of 2001) shall be treated as Convertible Bonds or corporate bonds with stock acquisition rights that are not Convertible Bonds, respectively, and these Rules shall be applied to them accordingly.

Supplementary Provisions

These revised Rules shall come into effect on the day prescribed by JSCC*.

(*Note) The “day prescribed by JSCC” is December 13, 2006.

Supplementary Provisions

- 1 These revised Rules shall come into effect on January 10, 2006.
- 2 In the case where bonds*¹ are in fact deposited by a Clearing Participant with JSCC in the form of actual certificates when these revised Rules come into effect, they shall be returned to the Clearing Participant by March 31, 2006.
(*¹ excluding the Japanese Government Bonds, corporate bonds with subscription warrants, etc., and Exchangeable Corporate Bonds)

Supplementary Provisions

These revised Rules shall come into effect on May 1, 2006.

Supplementary Provisions

These revised Rules shall come into effect on January 4, 2007.

Supplementary Provisions

These revised Rules shall come into effect on March 12, 2007.

Supplementary Provisions

These revised Rules shall come into effect on September 30, 2007.

Supplementary Provisions

These revised Rules shall come into effect on January 15, 2008.

Supplementary Provisions

These revised Rules shall come into effect on June 16, 2008.

Supplementary Provisions

These revised Rules shall come into effect on January 5, 2009.

Supplementary Provisions

These revised Rules shall come into effect on March 23, 2009.

Supplementary Provisions

These revised Rules shall come into effect on the day set by JSCC*.

(*Note) The date set by JSCC" is October 5, 2009.

Supplementary Provisions

These revised Rules shall come into effect on December 30, 2009.

Supplementary Provisions

These revised Rules shall come into effect on May 24, 2010.

Supplementary Provisions

These revised Rules shall come into effect on July 26, 2010.

<Appendix> Table Concerning Calculation of Theoretical Prices for Option Contracts

1. Individual Option Contracts

Theoretical price of Individual Put Option

$$= S e^{-\delta t} N(-d_1) + E e^{-r t} N(-d_2)$$

Theoretical price of Individual Call Option

$$= S e^{-\delta t} N(d_1) - E e^{-r t} N(d_2)$$

d_1 and d_2 are calculated pursuant to the following formula;

$$d_1 = \{ \ln (S e^{-\delta t} / E e^{-r t}) + 0.5 \sigma^2 t \} / \sigma \sqrt{t}$$

$$d_2 = d_1 - \sigma \sqrt{t}$$

Note 1. Symbols used in the formula above shall have the meanings set forth below:

e : base of natural logarithm

δ : expected dividend yield or expected distribution yield selected by JSCC from those relating to the underlying security.

t : number of days to the Exercise Day / 365

r : 3 month TIBOR published by the Japanese Bankers Association on the day immediately preceding the applicable day

S : closing price of the applicable issue of the underlying security on the day^{*1}

(*1 including the final quote that is posted in accordance with the rules prescribed by the Designated Market Operator; provided, however, that when deemed necessary by JSCC, the price prescribed by JSCC on a case-by-case basis)

$N(x)$: cumulative density in standard normal distribution for value x

E : exercise price

\ln : natural logarithm

σ : implied volatility that is deemed appropriate by JSCC

Note 2. The theoretical price shall be equal to the smallest of the increment of bids and offers prescribed by the Designated Market Operator, multiplied by a whole number; any fractional amount which is smaller than such increment of bids and offers shall be rounded up or down to the nearest amount that is equal to such increment of bids and offers multiplied by a whole number.

2. Option Contracts on JGB Futures

Theoretical price of Put Option on JGB Futures

$$= e^{-r t} [E N(-d_2) - S N(-d_1)]$$

Theoretical price of Call Option on JGB Futures

$$= e^{-r t} [S N(d_1) - E N(d_2)]$$

d_1 and d_2 are calculated pursuant to the following formula:

$$d_1 = \ln (S / E) / (\sigma \sqrt{t}) + 0.5\sigma \sqrt{t}$$

$$d_2 = d_1 - \sigma \sqrt{t}$$

Note 1. Symbols used in the formula above shall have the meanings set forth below:

e : base of natural logarithm

r : 3 month TIBOR published by the Japanese Bankers Association on the day immediately preceding the day on which the applicable Trading Day ends

t : number of days between the day on which the applicable Trading Day ends and the expiration date of the Exercise Period / 365

E : exercise price

$N (x)$: cumulative density in standard normal distribution for value x

S : clearing price for the underlying futures contract month contract subject to the exercise of right on the Trading Day

\ln : natural logarithm

σ : implied volatility that is deemed appropriate by JSCC

Note 2. The theoretical price shall be equal to the increment of bids and offers prescribed by the Designated Market Operator, multiplied by a whole number; any fractional amount which is smaller than such increment of bids and offers shall be rounded up or down to the nearest amount that is equal to such increment of bids and offers multiplied by a whole number.

3. Index Option Contract

Theoretical price of Index Put Option

$$= - S e^{-\delta t} N (- d_1) + E e^{-r t} N (- d_2)$$

Theoretical price of Index Call Option

$$= S e^{-\delta t} N (d_1) - E e^{-r t} N (d_2)$$

d_1 and d_2 are calculated pursuant to the following formula:

$$d_1 = \{ \ln (S e^{-\delta t} / E e^{-r t}) + 0.5\sigma^2 t \} / \sigma \sqrt{t}$$

$$d_2 = d_1 - \sigma \sqrt{t}$$

Note 1. Symbols used in the formula above shall have the meanings set forth below:

e : base of natural logarithm

δ : expected dividend yield or expected distribution yield selected by JSCC from those relating to the underlying index

t : number of days between the day on which the applicable Trading Day ends and the Exercise Day / 365

r : 3 month TIBOR published by the Japanese Bankers Association on the day

immediately preceding the day on which the applicable Trading day ends

S : closing price index for the underlying index on the day on which the applicable Trading Day ends*¹

(*¹ in the case where the securities buying/selling session is suspended, the value prescribed by JSCC on a case-by-case basis)

N (x) : cumulative density in standard normal distribution for value x

E : exercise price

ln: natural logarithm

σ : implied volatility that is deemed appropriate by JSCC

Note 2. The theoretical price shall be equal to the smallest of the increment of bids and offers prescribed by the Designated Market Operator, multiplied by a whole number; any fractional amount which is smaller than such increment of bids and offers shall be rounded up or down to the nearest amount that is equal to such increment of bids and offers multiplied by a whole number.

=End=